VRR

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

QUARTERLY JOURNAL

Volume 7
Number 3

Office of the Comptroller of the Currency
September 1988

Comptroller .... Robert L. Clarke

Policy Group

Chief Counsel .... Paul Allan Schott
Senior Deputy Comptroller for Administration .... Judith A. Walter
Senior Deputy Comptroller for Bank Supervision Operations .... Dean S. Marriott
Senior Deputy Comptroller for Bank Supervision Policy .... Robert J. Herrmann
Senior Deputy Comptroller for Corporate and Economic Programs .... J. Michael Shepherd
Senior Deputy Comptroller for Legislative and Public Affairs .... Frank Maguire
Special Adviser to the Comptroller .... Dana Cook

Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Examine the banks;
- Take supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The Office is funded through assessments on the assets of national banks.

The Comptroller

Robert Logan Clarke became the 26th Comptroller of the Currency on December 10, 1985.

By statute, the Comptroller serves a concurrent term as a Director of the Federal Deposit Insurance Corporation and as a member of the Federal Financial Institutions Examination Council.

An attorney, Mr. Clarke was formerly with the law firm of Bracewell & Patterson in Houston, Texas. He joined the firm in 1968 and founded its Banking Section in 1972.

Mr. Clarke received a B.A. degree from Rice University in 1963 and an LL.B. degree from Harvard University Law School in 1966. He served as a Captain in the United States Army from 1966 to 1968.

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March, June, September and December. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and testimony, material released in the interpretive letters series, summaries of enforcement actions, statistical data and other information of interest to the administration of national banks. Suggestions, comments or questions may be sent to Tibby Ford, Editor, Communications Division, Comptroller of the Currency, Washington, DC 20219. Subscriptions are available for $60 a year by writing to Publications—QJ, Comptroller of the Currency, Washington, DC 20219.

Quarterly Journal

Office of the Comptroller of the Currency

Robert L. Clarke

Comptroller of the Currency

The Administrator of National Banks

Contents

Operations of National Banks

Bank Performance Improved Slightly in the First Quarter But Problems Persist

The first quarter results in 1988 suggest that, after a very difficult and turbulent year, the condition and performance of the majority of national banks may be stabilizing, although at depressed levels. While the number of national banks with composite CAMEL ratings of 4 or 5 remained high at 309, this was six fewer problems institutions that in December 1987. In addition, through the first quarter of 1988, national banks failed at less than half the pace of the first quarter of 1987.

On reason for the improvement in these indicators has been an increase in profitability at many banks. Median return on assets was modestly higher during the first quarter of 1988 than during the first quarter of 1987. Only 15 percent of national banks reported losses during the first quarter of 1988, compared to 18 percent during the same period last year.

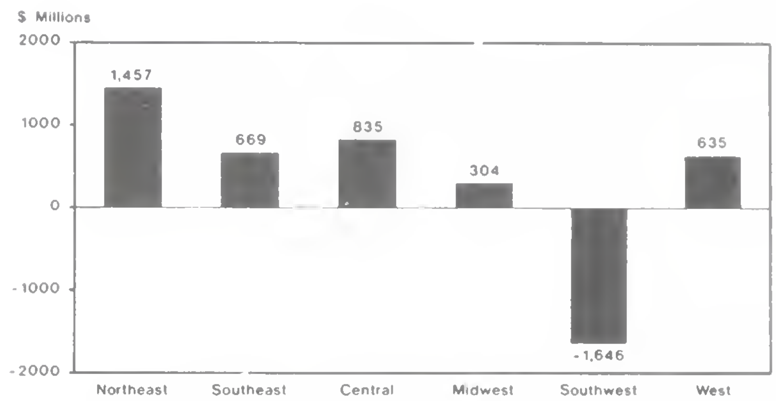
Important credit quality indicators — the rate at which banks make provisions for loan losses and the burden of nonperforming assets — improved significantly. In addition, national banks' primary capital ratios strengthened during the quarter.

Nationwide, however, the picture is mixed; regional differences in bank performance and condition remain stark. The highest profitability, as measured by return on assets, was in the OCC's Northeast, Southeast, Midwest and Central Districts. In contrast, bank profitability remained depressed in the West and the Southwest; Southwestern banks in particular had substantial credit quality problems, particularly in their portfolios of real estate loans. First quarter results were especially encouraging in the Midwest, where banks benefitted from an improving agricultural economy, although even these banks should be monitored closely during the rest of this year to determine how badly the summer drought conditions may imperil the farm recovery and the rebound in the performance of agricultural banks.

Aggregate Earnings Declined Due to Losses in the Southwest

National banks earned $2.25 billion during the first quarter of 1988, down 21 percent from the $2.84 billion earned during the first quarter last year. In most parts of the country, however, profits were up; only substantial losses in the OCC Southwestern District prevented record quarterly earnings for the national banking system as a whole. National banks in the Southwestern District lost more than $1.6 billion in the first quarter, First RepublicBank Dallas, N.A. accounted for most of that loss.

AGGREGATE NATIONAL BANK PROFITS BY OCC DISTRICT



Source Call Reports, First Quarter 1988

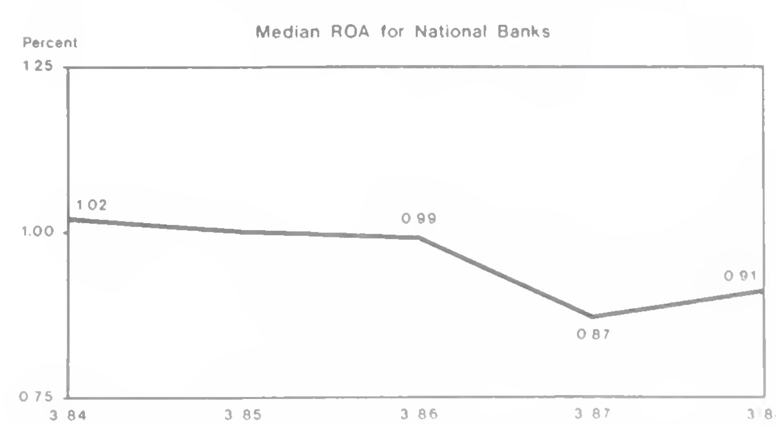
Industry & Financial Analysis

Median ROA Increased in the First Quarter

Median return on assets (ROA) for all national banks was 0.91 percent (annualized) during the first quarter of 1988. This was an improvement of 4 basis points over the median return on assets reported by all national banks during the first quarter of 1987, but was still lower first quarter profitability than was recorded during the 3 years from 1984 to 1986.

Median ROA serves as a very good indicator of the central tendency of bank performance; it is not affected by extraordinary profits or losses among relatively few banks. Thus, the losses at First RepublicBank Dallas, N.A. have little effect on median bank profitability.

FIRST QUARTER RETURN ON ASSETS TURNED UP



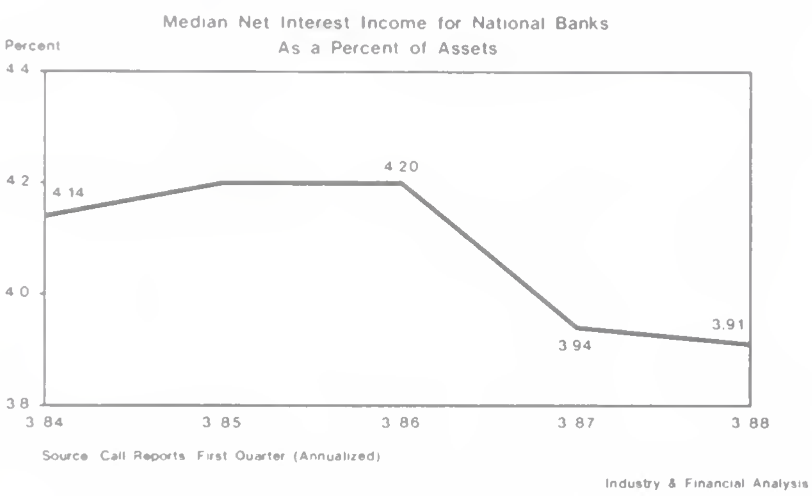
Source Call Reports First Quarter (Annualized)

Industry & Financial Analysis

Net Interest Margin Continued to Weaken

The stabilization in median national bank profitability during the first quarter of 1988 occurred despite a slight deterioration in median net interest margin. The median yield on assets for all national banks rose 5 basis points but the median cost of funding assets increased by 8 basis points between the first quarter of 1987 and the first quarter of 1988. As a result, median net interest margin, which is measured by net interest income as a percent of assets, declined from 3.94 percent to 3.91 percent.[1]

FIRST QUARTER NET INTEREST MARGIN FELL AGAIN, SLIGHTLY



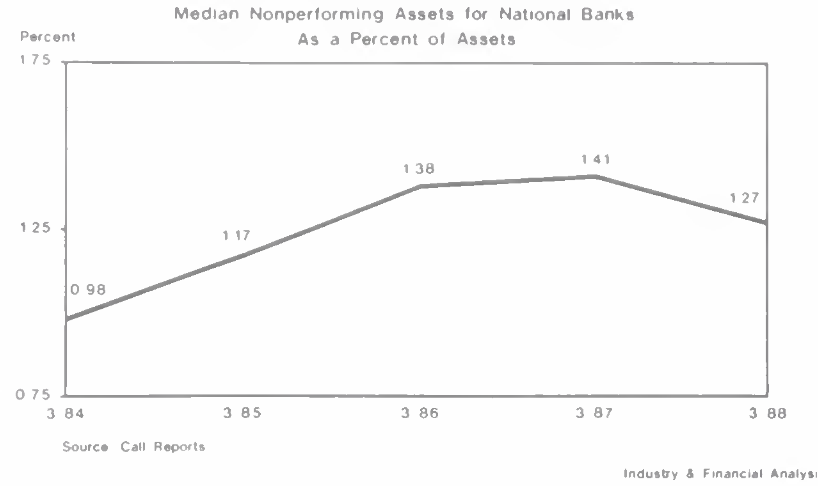
Important Credit Quality Indicators Improve Significantly

Despite the slight deterioration in net interest margins, median ROA improved because of fewer nonperforming assets and less severe provisions for loan losses.

The drop in median nonperforming loans at national banks, from 1.41 percent of assets in the first quarter of 1987 to 1.27 percent of assets in the first quarter of 1988, is a heartening sign. The banking industry has wrestled with difficult credit quality problems since the two close consecutive recessions of 1980 and 1982, and any sign that the burden of problem loans is lighter is welcome.

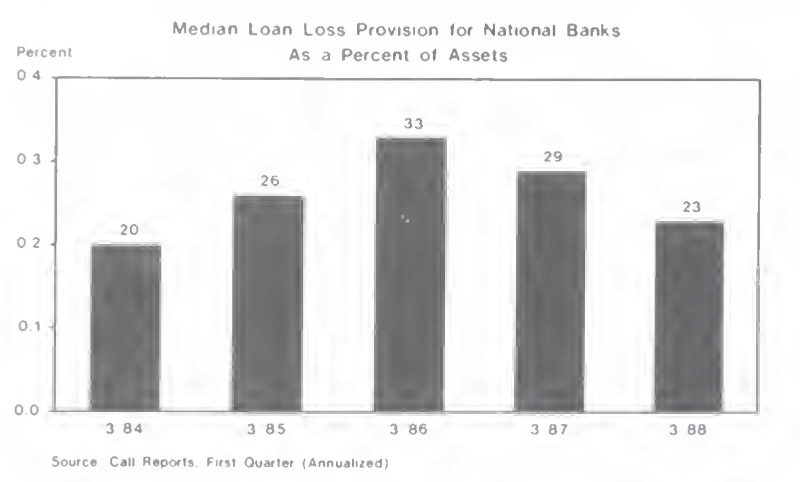
[1] Here we infer that the performance of two median financial ratio statistics from the income statement (yield on assets and cost of funding assets) will explain the performance of a third ratio (net interest margin). In fact, when using median statistics from the income statement the different components of the income statement will not sum precisely because the median statistic for one ratio may represent a different bank than the median statistic for another ratio. Our sample of banks, however, is sufficiently large (over 4,500 national banks) that we can make broad inferences as to cause and effect regarding bank profitability trends without compromising significant accuracy.

THE BURDEN OF NONPERFORMING ASSETS IS LIGHTER



Reflecting the improvement in the burden of nonperforming loans, the median provision for loan losses declined to 0.23 percent of assets during the first quarter of 1988, much lower than the 0.29 percent reported during the first quarter of 1987, or the 0.33 percent during the same period in 1986. The slower rate at which national banks made provisions for loan losses is a sign that they believe their credit quality problems are improving.

FIRST QUARTER LOAN LOSS PROVISION DECLINED SIGNIFICANTLY

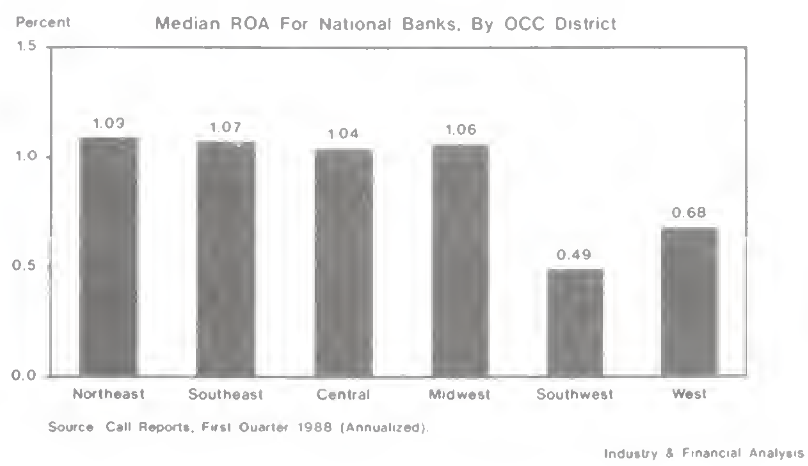


Regional Differences In Performance and Condition Remain Stark

The modest improvement in median ROA is favorable news for the national banking system as a whole. Nevertheless, the performance and condition of the system remained highly stratified. Banks in the Southwest were generally performing much worse than, and faced greater financial stress than, banks in the other regions of the United States. Banks in the West also displayed a greater degree of financial stress than banks elsewhere in the country, but not to the same degree as in the Southwest

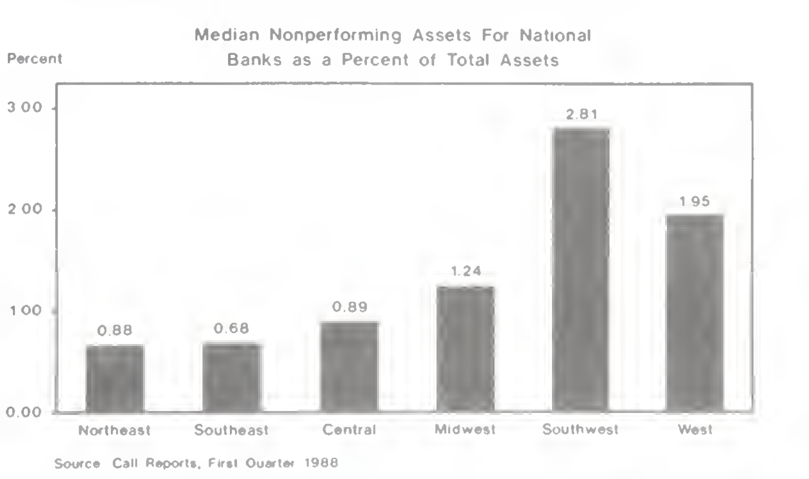
First quarter median return on assets remained 30 to 60 basis points lower in the OCC Southwestern and Western Districts than in the other four districts; national banks in the Southwest reported median return on assets of 0.49 percent, and in the West they reported median return on assets of 0.68 percent. Median ROA was at least 1.04 percent in each of the other OCC Districts.

BANKS IN THE SOUTHWEST REPORT LOWEST RETURN ON ASSETS



Much of the difference in return on assets in the Southwest and West could be attributed to differences in credit quality prevailing in those regions compared to the rest of the country. As of the first quarter of 1988, the median level of nonperforming assets relative to total assets in the rest of the country ranged from 0.66 percent in the OCC's Northeastern District to 1.24 percent in the Midwestern District. In the Southwestern and Western Districts, however, the burden of nonperforming assets is much more severe, ranging from 1.95 percent in the West to 2.81 percent in the Southwest.

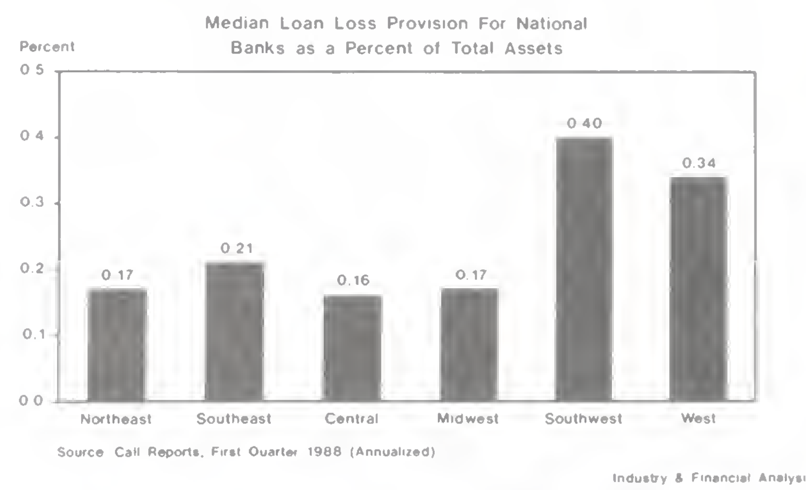
THE INCIDENCE OF NONPERFORMING ASSETS REMAINS HIGHEST IN THE SOUTHWEST



Because Southwestern and Western banks have a higher relative level of problem assets, they have also had to make greater provisions to loss reserves than national banks in the rest of the country. This trend, which was very evident in yearend results both in 1986 and 1987, continued through the first quarter of 1988.

Provisions to loss reserves are a direct charge on bank operating income, and a higher pace of loss provisions directly pull down a bank's return on assets. Median loan loss provisions in the West and the Southwest ranged from 18 to 24 basis points higher than in the other Districts.

BANK LOSS PROVISIONS ARE HEAVIEST IN THE SOUTHWEST AND WEST



Bank Failures and Problem Banks Remain Concentrated in the Southwest

The pattern of bank failures by OCC District is striking. Table 1 displays the regional distribution of national bank failures for 1987, and for the first quarter of 1988. During the first quarter of 1988, ten national banks failed, eight in the Southwestern District, and two in the Western District. No national banks failed outside of those two Districts.

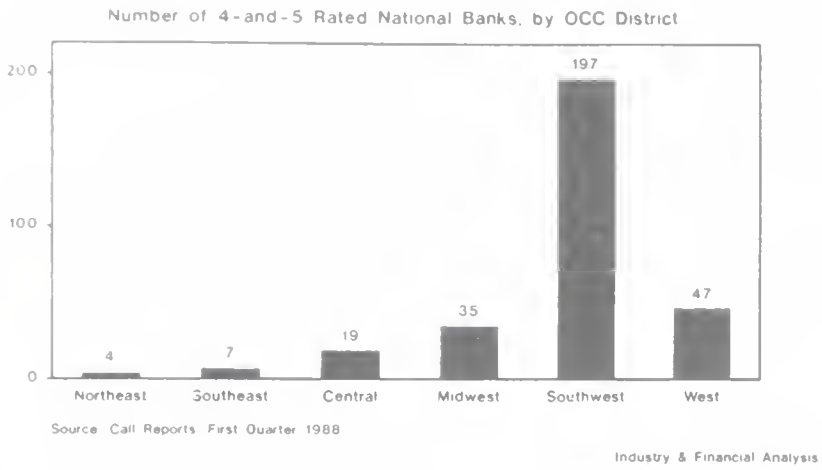
Although the high concentration of national bank failures in the Southwest indicates the degree of financial stress faced by commercial banks in that region, particularly Texas, it is encouraging that the overall rate of national bank failure slowed compared to 1987. Sixty-one national banks failed during 1987; ten failed during the first quarter of 1988, an annual rate of 40 failures.

Some modest good news can be also found in the data on the number of problem national banks, those with CAMEL ratings of 4 or 5. As mentioned at the beginning of this article, the number of national banks so classified declined from 315 at yearend 1987 to 309 by the end of the first quarter of 1988.

Unfortunately, this small reduction does nothing to shift the concentration of troubled institutions away from the

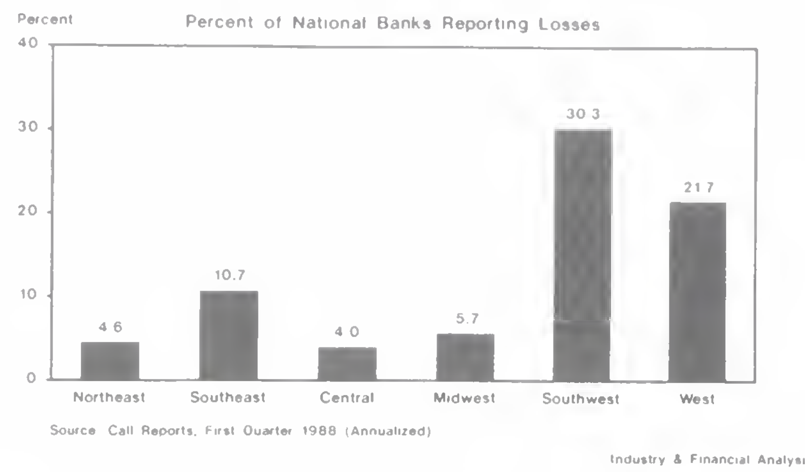
economically troubled Southwest, where over two-thirds of all problem national banks are located. At the end of the first quarter of 1988, 197 of the 309 national banks with CAMEL ratings of 4 or 5 were located in the OCC Southwestern District.

MOST PROBLEM NATIONAL BANKS ARE LOCATED IN THE SOUTHWEST



The clearly more difficult position of national banks in the Southwest (and to a lesser extent in the West) compared to other regions of the country is also evident when we look at the percent of national banks that reported losses in the first quarter of this year. Over 30 percent of all national banks in the OCC Southwestern District and nearly 22 percent of national banks in the OCC Western District reported losses during the first quarter. In contrast, less than 6 percent of all national banks in the rest of the country reported losses during the first quarter.

NATIONAL BANKS REPORT LOSSES MOST FREQUENTLY IN THE SOUTHWEST AND WEST



The particularly difficult economic conditions that have prevailed in the Southwest since 1986 now show signs of improvement. In Texas, for example, basic indicators of business activity, such as the volume of new jobs created, have turned positive. It will probably be another 18 to 24 months before the financial performance and condition of the banking system in that region reflects an economic upturn. In the interim, the widespread incidence of banks generating losses, and the large remaining number of problem national banks, remind us of the difficult bank management challenges that lie ahead.

Nigel Ogilvie
Industry & Financial Analysis Division

Summary statistics for national banks
(Data through first quarter 1988)

	3/31/84	3/31/85	3/31/86	3/31/87	3/31/88	3/31/88			
						Over $10B	$1B-$10B	$0-$1B	New Banks[1]
<u>Banking Aggregates</u>									
Number of Banks	4,749	4,876	4,886	4,786	4,520	29	182	4.026	283
Total Assets ($ Billion)	1,398	1,488	1,620	1,707	1,768	794	565	391	17
Net Income ($ Million)	2,264	2,599	2,484	2,841	2,254	731	862	620	40
Standbys & Commitments ($ Billion)	395	447	479	494	523	361	135	27	1
Percent of Banks with Losses	11.43	15.42	16.95	18.20	15.00	3.45	8.24	13 02	48 76
Number of Failed Commercial Banks	3	6	9	23	10	0	0	10	0
Number of Problem National Banks[2]	144	227	287	305	309				
<u>Performance Measures (Medians)</u>									
<u>Profitability (%)</u>									
Return on Equity	12.91	12.64	12.35	10.71	11.18	18.61	16.04	11.33	0 43
Return on Assets	1.02	1.00	0.99	0.87	0.91	0.98	1.02	0.93	0.03
Yield on Assets	10.84	10.68	9.94	8.68	8.73	8.57	8.49	8.73	9.33
Cost of Funding Assets	6.74	6.49	5.76	4.76	4.84	5.27	4.82	4.84	4.95
Net Interest Income to Assets	4.14	4.20	4.20	3.94	3.91	3.32	3.82	3.91	4.33
Loss Provision to Assets	0.20	0.26	0.33	0 29	0.23	0.38	0.38	0.21	0.37
Noninterest Income to Assets	0.66	0.68	0.70	0.70	0.70	1.43	1.35	0.67	0.83
Noninterest Expense to Assets	3 29	3.37	3.43	3.32	3.30	3.42	3.56	3.22	5.14
Net Operating Income to Assets	1.01	0.98	0.87	0.75	0.85	0.93	0.97	0.87	−0.03
<u>Asset Quality (%)</u>									
Nonperforming Assets to Assets	0.98	1.17	1.38	1.41	1.27	2.57	1.19	1.34	0.21
Loss Reserve to Loans	1.02	1.08	1.23	1.38	1.46	3.39	1.43	1.49	1.01
Net Loss to Loans	0.06	0.11	0.23	0.23	0.16	0.82	0.43	0.16	0.00
<u>Funding & Liquidity (%)</u>									
Net Loans & Leases to Assets	52.08	54.75	54.28	52.90	53.86	62.52	63.92	52.95	58.19
Wholesale Funds to Deposits	9.49	10.92	11.29	10.27	10.91	36.51	15.84	10.23	22.29
<u>Capital (%)</u>									
Total Capital to Assets	8.72	8.77	8.75	8.68	8.75	7.64	7.65	8.78	10.86
Primary Capital to Assets	8.56	8.61	8.62	8.54	8.63	7.15	7.34	8.68	10.73
Equity Capital to Assets	7.98	7.99	7.90	7 76	7.83	4.94	6.23	7.87	9.99
<u>Growth Rates (%)</u>									
Assets	9.32	7.63	7.78	5.92	4.21	.48	6.99	3.82	30.17
Equity Capital	8.20	8.14	7.54	5.57	5.49	−2.10	8.99	5.59	−0 60
Net Loans & Leases	15.47	11.88	6.88	4.00	6.63	7 89	11.37	5.68	40 15

[1]New banks are banks that have been in operation less than 3 years.
[2]Problem banks have composite CAMEL ratings of 4 or 5.
Industry & Financial Analysis

Summary statistics for national banks by district
(Data through first quarter 1988)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	Western	U.S.
Banking Aggregates							
Number of Banks	495	532	903	714	1 322	554	4 520
Total Assets ($ Billion)	634	255	284	114	189	292	1 768
Net Income ($ Million)	1 457	669	835	304	-1 646	635	2 254
Standbys & Commitments ($ Billion)	217	45	82	19	38	122	523
Percent of Banks with Losses	4.65	10.71	3.99	5.74	30.33	21.66	15.00
Number of Failed National Banks	0	0	0	0	80	2	10
Number of Problem National Banks*	4	7	19	35	197	47	309
Performance Measures (Medians)							
Profitability (%)							
Return on Equity	13.94	12.82	12.68	12.84	6.64	8.68	11.18
Return on Assets	1.09	1.07	1.04	1.06	0.49	0.68	0.91
Yield on Assets	9.10	8.96	8.67	8.68	8.55	8.87	8.73
Cost of Funding Assets	4.99	4.90	4.92	4.82	4.98	4.29	4.84
Net Interest Income to Assets	4.23	4.12	3.79	3.83	3.68	4.63	3.91
Loss Provision to Assets	0.17	0.21	0.16	0.17	0.40	0.34	0.23
Noninterest Income to Assets	0.52	0.76	0.54	0.59	0.81	1.01	0.70
Noninterest Expense to Assets	3.20	3.53	2.90	2.90	3.52	4.53	3.30
Net Operating Income to Assets	1.07	1.01	1.00	1.02	0.41	0.62	0.85
Asset Quality (%)							
Nonperforming Assets to Assets	0.66	0.68	0.89	1.24	2.81	1.95	1.27
Loss Reserve to Loans	1.01	1.16	1.26	1.78	1.96	1.62	1.46
Net Loss to Loans	0.05	0.12	0.08	0.04	0.56	0.29	0.16
Funding & Liquidity (%)							
Net Loans & Leases to Assets	62.78	55.62	53.28	46.81	51.76	57.29	53.86
Wholesale Funds to Deposits	8.55	11.66	7.11	6.15	21.39	11.48	10.91
Capital (%)							
Total Capital to Assets	8.55	8.91	8.84	9.01	8.55	8.69	8.75
Primary Capital to Assets	8.44	8.79	8.74	8.88	8.42	8.57	8.63
Equity Capital to Assets	7.85	8.19	8.00	8.02	7.44	7.47	7.83
Growth Rates (%)							
Assets	9.70	7.52	3.82	1.88	3.08	2.55	4.21
Equity Capital	9.98	7.97	6.50	5.75	0.29	3.93	5.49
Net Loans & Leases	17.31	13.17	8.41	5.09	-0.61	2.35	6.63

*Problem banks have composite CAMEL ratings of 4 or 5

Industry & Financial Analysis

Summary statistics for insured commercial banks
(Data through first quarter 1988)

	3/31/84	3/31/85	3/31/86	3/31/87	3/31/88	3/31/88			
						Over $10B	$1B-$10B	$0-$1B	New Banks[1]
Banking Aggregates									
Number of Banks	14,352	14,327	14,176	13,887	13,332	36	307	12,304	685
Total Assets ($ Billion)	2,343	2,487	2,703	2,867	2,962	1,109	899	920	33
Net Income ($ Million)	4,207	4,730	4,999	5,167	4,912	1,525	1,645	1,700	41
Standbys & Commitments ($ Billion)	582	659	714	739	787	513	214	57	2
Percent of Banks with Losses	10.42	12.26	13.54	14.64	12.71	2.78	6.51	10.87	49.05
Number of Failed Commercial Banks	13	20	26	52	46	0	0	43	3
Performance Measures (Medians)									
Profitability (%)									
Return on Equity	13.19	13.45	13.19	11.54	11.55	19.70	15.88	11.69	0.21
Return on Assets	1.09	1.11	1.09	0.96	0.97	0.96	1.01	0.99	0.02
Yield on Assets	10.99	10.82	10.03	8.80	8.80	8.24	8.67	8.80	9.10
Cost of Funding Assets	6.83	6.59	5.81	4.80	4.87	5.18	4.91	4.86	4.93
Net Interest Income to Assets	4.17	4.25	4.24	4.00	3.94	3.03	3.80	3.95	4.10
Loss Provision to Assets	0.16	0.22	0.29	0.25	0.20	0.36	0.32	0.19	0.36
Noninterest Income to Assets	0.62	0.63	0.64	0.64	0.64	1.62	1.26	0.63	0.65
Noninterest Expense to Assets	3.21	3.23	3.29	3.21	3.20	3.09	3.49	3.13	4.77
Net Operating Income to Assets	1.08	1.07	0.98	0.86	0.90	0.92	0.95	0.93	-0.03
Asset Quality (%)									
Nonperforming Assets to Assets	1.11	1.29	1.48	1.43	1.23	2.49	1.05	1.29	0.07
Loss Reserve to Loans	0.98	1.04	1.19	1.32	1.38	3.58	1.37	1.41	0.98
Net Loss to Loans	0.02	0.07	0.14	0.13	0.09	0.81	0.35	0.09	0.00
Funding & Liquidity (%)									
Net Loans & Leases to Assets	52.18	53.99	52.91	51.55	52.52	61.19	65.14	52.00	56.17
Wholesale Funds to Deposits	8.55	9.56	9.66	8.80	9.62	39.28	16.47	9.05	21.70
Capital (%)									
Total Capital to Assets	8.87	8.93	8.94	8.86	8.96	7.67	7.64	8.96	11.75
Primary Capital to Assets	8.74	8.80	8.82	8.75	8.86	7.19	7.32	8.86	11.61
Equity Capital to Assets	8.23	8.18	8.16	8.01	8.08	4.86	6.32	8.08	10.93
Growth Rates (%)									
Assets	9.21	7.25	6.98	5.81	3.87	6.17	7.98	3.58	37.06
Equity Capital	8.33	8.35	7.75	5.85	5.87	-5.71	9.89	5.91	1.61
Net Loans & Leases	13.61	10.23	4.92	3.41	6.71	7.04	11.35	6.13	42.12

[1]New banks are banks that have been in operation less than 3 years.
Industry & Financial Analysis

Summary statistics for insured commercial banks by district
(Data through first quarter 1988)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	Western	U S
Banking Aggregates							
Number of Banks	1 039	1,914	2,992	3,164	2,810	1,413	13,332
Total Assets ($ Billion)	1,161	410	475	203	275	437	2,962
Net Income ($ Million)	2,760	1,031	1,328	540	-1,643	896	4,912
Standbys & Commitments ($ Billion)	397	62	104	24	41	159	787
Percent of Banks with Losses	7 80	11.18	4.55	7.55	26.94	18.90	12 71
Number of Failed Commercial Banks	1	2	1	10	27	5	46
Performance Measures (Medians)							
Profitability (%)							
Return on Equity	13.45	12 35	12.33	12 35	8.02	9.16	11.55
Return on Assets	1 07	1.09	1.04	1.06	0.64	0.73	0.97
Yield on Assets	9 14	9 13	8.78	8.68	8.59	9.00	8.80
Cost of Funding Assets	5 04	4.99	4.95	4.83	4.89	4 36	4.87
Net Interest Income to Assets	4 19	4 15	3.83	3.86	3.74	4 67	3.94
Loss Provision to Assets	0 17	0.21	0.15	0.14	0.36	0.29	0.20
Noninterest Income to Assets	0 51	0.76	0.50	0.52	0.78	1.00	0.64
Noninterest Expense to Assets	3.25	3.43	2.89	2.82	3.45	4.62	3.20
Net Operating Income to Assets	1 01	1.03	0.99	1.02	0.55	0.67	0.90
Asset Quality (%)							
Nonperforming Assets to Assets	0.62	0.73	0.89	1.27	2.81	2.12	1.23
Loss Reserve to Loans	1.00	1.12	1.22	1.75	1.89	1.41	1.38
Net Loss to Loans	0.03	0.08	0.04	0.00	0.48	0.21	0.09
Funding & Liquidity (%)							
Net Loans & Leases to Assets	64.38	55.85	52.91	45 69	50.58	58.74	52.52
Wholesale Funds to Deposits	9 46	12.21	6.70	5.58	18.91	11.78	9.62
Capital (%)							
Total Capital to Assets	8.67	9.33	8.93	9 22	8.63	8.78	8.96
Primary Capital to Assets	8.50	9.25	8.86	9.12	8.51	8 62	8.86
Equity Capital to Assets	7.89	8.60	8.18	8.[illegible]2	7.59	7.71	8.08
Growth Rates (%)							
Assets	10.36	7.57	4.12	1.67	1.82	3.63	3.87
Equity Capital	10.27	7 96	6.60	5.76	0.35	5.27	5.87
Net Loans & Leases	17.51	13.07	8.42	4.83	-1.59	3.87	6.71

Industry & Financial Analysis

An Evaluation of the Factors Contributing to the Failure of National Banks: Phase II

Introduction

In the 1980s, more banks have failed than in the entire previous post-Depression period. These failures have coincided with a period of serious economic decline in certain sectors, most notably agriculture, oil and gas, and commercial real estate. A common presumption is, therefore, that these bank failures have been caused by adverse economic conditions. This presumption is believed to be further borne out by the fact that most failed banks have been located in regions with troubled economies.

This view, though seemingly plausible, is in conflict with the Office of the Comptroller of the Currency's long-held belief that a bank's management and board of directors bear the ultimate responsibility for the performance of their institutions. While the OCC recognizes that the economy plays an important role, examiners also have noted that many banks successfully weather periods of adverse economic conditions.

To understand more clearly the relative roles of external economic difficulties and internal management factors in determining a bank's success or failure, the OCC undertook a study to identify and evaluate the factors contributing to the failure of national banks. The OCC believed that isolating such factors would help it identify banks likely to fail and strengthen its ability to supervise and to help prevent other banks from failing. The study showed that while poor economic conditions make it more difficult for a bank to steer a profitable course, the policies and procedures of a bank's management and board of directors have the greater influence on whether a bank will succeed or fail. In other words, poor management and other internal problems are the common denominator of failed and problem banks.

Management-driven weaknesses played a significant role in the decline of 90 percent of the failed and problem banks the OCC evaluated. Many of the difficulties the banks experienced resulted from inadequate loan policies, problem loan identification systems, and systems to ensure compliance with internal policies and banking law. In other cases, directors' or management's overly aggressive behavior resulted in imprudent lending practices and excessive loan growth that forced the banks to rely on volatile liabilities and to maintain inadequate liquid assets.

Insider abuse and fraud were significant factors in the decline of more than one-third of the failed and problem banks the OCC evaluated. Much of that insider abuse or fraud involved directors, senior management, or principal shareholders or was related to their failure to provide adequate oversight and controls.

Economic decline contributed to the difficulties of many of the failed and problem banks. It was, in fact, a significant cause of problems in more than one-third of the banks we evaluated. Rarely, however, were economic factors the sole cause of a bank's decline. All but 7 percent of the failed and problem banks also had significant internal problems related to management.

This paper presents the findings of our study. It identifies the specific internal weaknesses that appear to be most influential on a bank's failure. It also assesses the primary factors that seem to distinguish banks that fail from those that do not, even in troubled economic environments. The study provides evidence that management and the board of directors, ultimately, are responsible for the success or failure of a bank. It highlights the need for a bank to establish strong policies, controls, and systems when economic conditions are good, thereby greatly increasing its chances of remaining profitable when economic conditions are bad.

Description of the Study

The OCC's study is based on an analysis of banks that failed, became problems and recovered, or remained healthy during the period 1979 through 1987. The OCC analyzed 171 failed banks to identify characteristics and conditions present when the banks deteriorated.[1] The OCC also evaluated a sample of 51 rehabilitated banks in similar circumstances that experienced significant difficulties from which they recovered. These rehabilitated banks' composite CAMEL ratings moved from a 1 or a 2, to a 4 or a 5, and then returned to a 1 or a 2, during the 1979 through 1987 period.[2] The OCC evaluated these

[1] The sample includes 94 percent of the banks that, between 1979 and 1987, were declared insolvent by the OCC and on which one of the following actions was taken by the FDIC: a purchase and assumption, a deposit transfer, or a payoff of insured depositors. The 6 percent not included were banks for which sufficient information was not available at the time of the review.

[2] The acronym CAMEL represents the five categories in which banks are rated by examiners—Capital, Asset quality, Management, Earnings, and Liquidity. The composite rating represents the overall status of the bank and takes into account the ratings in all five categories. A 1-rated bank is in the best of health while a 5-rated bank is very near failure. A bank with a composite rating of 4 or 5 is labeled a problem bank by the OCC.

banks to identify characteristics and conditions present when they became problem banks, and again to identify the characteristics and conditions present when they returned to health. Finally, the OCC evaluated a sample of 38 healthy banks that maintained composite CAMEL ratings of 1 or 2 throughout the period. The healthy banks served as a control group against which the OCC compared the groups that experienced problems.

The OCC collected two types of data. First, examiners recorded factual information about each bank's geographical location, asset size, type of ownership, and changes in control. Second, we subjectively evaluated each bank's performance in eight broad categories. The categories were:

1. Policy, planning, and management quality;
2. Audits, controls, and systems;
3. Asset quality;
4. Liquidity and funds management;
5. Nonfunding expenses;
6. Insider abuse;
7. Fraud; and
8. Economic environment.

Using examination reports, bank histories prepared by OCC examiners, and other information provided by banks and examiners, the OCC determined the extent to which each rehabilitated and failed bank's performance in a particular category caused it to have problems or to fail. Within each of the eight categories, the OCC evaluated a number of specific characteristics to determine whether each was significantly present, marginally present, or not present. By evaluating these factors, it was possible to detail the particular difficulties and strengths that banks had within each of the broader categories.

Most of the failed banks were smaller banks located in the OCC's Midwestern, Southwestern, and Western districts, that is, 78 percent had less than $50 million in assets. The rehabilitated banks and healthy banks were chosen to conform as closely as possible to the failed banks in terms of location, problems in the economy, and asset size.

Why Banks Develop Problems

The major cause of decline for problem banks continues to be poor asset quality that eventually erodes a bank's capital. The OCC's intent, however, was to determine the factors that were commonly responsible for the poor asset quality. In particular, the OCC wanted to determine the relative importance of internal factors—the banks' management practices—and external factors—the economic environment. To that end, examiners and analysts evaluated the internal and external conditions faced by the three groups of banks in the study.

Internal Problems

Board and Management

The study showed that deficiencies within boards of directors and management were the primary internal problems of problem and failed banks. The quality of a bank's board and management depends on the experience, capability, judgment, and integrity of its directors and senior officers. Several management shortcomings and the problems related to them are discussed below.

(1) Uninformed or Inattentive Board of Directors or Management

The OCC's recently released publication, *The Director's Book,* emphasizes the importance of a bank's board of directors. Specifically,

> "A bank's board of directors is ultimately responsible for the conduct of the bank's affairs. The board controls the bank's direction and determines how the bank will go about its business. . . . A board must be strong, independent, and actively involved in the bank's affairs. The long-term health of the institution depends on it."

Nearly 60 percent of failed banks had directorates that either lacked necessary banking knowledge or were uninformed or passive in their supervision of the bank's affairs. Such deficiencies often arose when the board was not getting sufficient or timely information from management and was not making enough of an effort to correct problems. More than half of the rehabilitated banks had similar deficiencies during their decline into problem bank status. In contrast, none of the boards of the continuously healthy banks or of the rehabilitated banks upon their return to health had deficiencies in these areas.

It is important to distinguish the role and responsibilities of boards of directors from those of management. The responsibilities of the board in directing the bank are:

- to ensure competent management;
- to ensure that appropriate plans and policies are in place;
- to monitor operations ensuring adequate internal controls and compliance with applicable laws and regulations;

- to oversee business performance; and

- to ensure that the bank serves the credit needs of its community.

To fulfill these responsibilities the board should maintain clear lines of authority and accountability and ensure that management understands and carries out the bank's policies. Although the board should leave day-to-day operations (managing the bank) to management, it must retain overall control.

The study showed the following factors, related to poor board or management supervision, to be significant problems for many of the failed banks:

- Nonexistent or poorly followed loan policies (81 percent of the failed banks);

- Inadequate systems to ensure compliance with internal policies or banking laws (69 percent);

- Inadequate controls or supervision of key bank officers or departments (63 percent);

- Inadequate problem loan identification systems (59 percent);

- Decisions made by one dominant individual—*e.g.*, CEO, chairman, or principal shareholder (57 percent); and

- Nonexistent or poorly followed asset and liability management policies (49 percent).

These deficiencies clearly indicate a need for improved oversight on the part of the board of directors and managers. Failure to address problems like these may, in part, be the result of the inability of the board and management to understand important changes in the deregulated financial environment, *e.g.*, risk and return issues as compared to costs of funds.

In general, the study found that rehabilitated banks had similar problems during their decline. Yet, they had somewhat fewer problems with regard to inadequate board supervision of key officers and controls to ensure compliance with policies and laws.

Problem and failed banks consistently lacked policies, systems, and controls to guide their staffs in performing the tasks required to maintain a well-managed and income-producing loan portfolio through both good and bad economic times.

Healthy banks were not immune to some of the characteristics connected with problem or failed banks, although healthy banks never exhibited these factors to the same extent as problem and failed banks. The most frequently identified characteristics related to one dominant decision maker and inadequate systems to ensure compliance with internal policies and banking laws.

(2) Overly Aggressive Activity by Board or Management

Another set of problems that prevailed in failed banks was overly aggressive activity, described as excessively growth-minded or following liberal credit views. Aggressive, growth-minded behavior is not, in and of itself, a weakness. In fact, an aggressive approach combined with well-established policies and controls can be a successful strategy. What the OCC found to be a problem, however, was *overly* aggressive or *excessively* growth-minded actions relative to the circumstances in which the bank operated. In 42 percent of the failed banks, the board of directors was aggressive in a way that had a significantly negative effect on performance.[3] In fact, eight of every 10 failed banks were judged to have had a board or management that was overly aggressive to some degree. The lending and operating practices of many of these banks also reflected problems. For example, failed banks frequently exhibited:

- Inappropriate lending policies: liberal repayment terms, collection practices, or credit standards (found in 86 percent of the failed banks);

- Excessive loan growth in relation to the abilities of management staff, control systems, or funding sources (51 percent);

- Undue reliance on volatile liabilities—*e.g.*, deposits greater than $100 thousand, but not necessarily brokered (41 percent); and

- Inadequate liquid assets as a second source of liquidity (38 percent).

During their decline, the rehabilitated banks also experienced problems associated with overly aggressive behavior, but less frequently than the failed banks did. Only 22 percent had a board that examiners judged to be significantly overly aggressive, and fewer than 50 percent tended to be overly aggressive to any degree. Moreover, declining rehabilitated banks had fewer significant problems with excessive loan growth, reliance on volatile liabilities, and inadequate liquid assets. In spite

[3]Note that an aggressive board can also be an uninformed or inattentive board. It can emphasize growth and aggressive income generating policies without monitoring or even knowing the particular activities of its management.

of their more conservative behavior relative to that of the failed banks, 96 percent of the rehabilitated banks still had some form of inappropriate lending practices during their decline. The problems associated with liberal lending practices were apparently less detrimental when accompanied by a less aggressive lending philosophy.

Among the healthy banks, overly aggressive behavior was nearly nonexistent. Rehabilitated banks, after their return to health, also had no significant problem with any of the characteristics we have associated with overly aggressive behavior. This evidence shows that overly aggressive behavior may well underlie severe problems and make recovery from those problems much less likely.

(3) Problems Involving the Chief Executive Officer (CEO)

The CEO is probably the most important determinant of the success or failure of a bank. The study's results indicate how important the CEO is by showing that CEOs had significant weaknesses at many of the problem banks. Sixty-three percent of the failed banks had CEOs that clearly lacked the capability, experience, or integrity necessary to make their banks successful. Another 18 percent had CEOs who showed some signs of weakness in these areas. In the declining rehabilitated banks, CEO problems were less often significant; still, 39 percent had significant problems, and another 39 percent had marginal shortcomings.

The CEOs at the healthy banks were generally judged to be strong. Those at continuously healthy banks had no apparent problems with experience, capability, or integrity. Likewise, those at recovered banks had no significant problems in these areas. Clearly, choosing a strong CEO is an important step in ensuring a bank's success.

(4) Other Problems Related to Oversight or Management Deficiencies

Other indications of either overly aggressive activity or uninformed management decisions included:

- Excessive credit exceptions—*i.e.*, missing financial statements or income information about borrowers or poor collateral documentation/perfection (found in 81 percent of the failed banks)
- Overlending—*i.e.*, high loan amount relative to debt service ability of the borrower (72 percent);
- Collateral based lending and insufficient cash flow analysis (13 percent), and
- Unwarranted concentrations of credit to one industry (36 percent).

We found these factors, in nearly identical percentages, in the rehabilitated banks during their decline.

Surprisingly, excessive credit exceptions were found in a high percentage of healthy banks, especially in those that were continuously healthy. This behavior was apparently not as damaging when other lending practices are well-conceived and executed.

<u>Insider Abuse and Fraud</u>

The study found insider abuse in many of the failed and rehabilitated banks during their decline. Insider abuse—*e.g.*, self-dealing, undue dependence on the bank for income or services by a board member or shareholder, inappropriate transactions with affiliates, or unauthorized transactions by management officials—was a significant factor leading to failure in 35 percent of the failed banks. About a quarter of the banks with significant insider abuse also had significant problems involving material fraud. Material fraud, in fact, played a significant role in 11 percent of the failures. During their decline, 24 percent of the rehabilitated banks experienced significant insider abuse, but none were seriously affected by material fraud.

Healthy banks, in contrast, generally avoided problems in these areas. Those that had recovered from problem bank status had corrected even their marginally apparent insider abuse and fraud problems. Of the continuously healthy banks, one had a marginal problem with fraud and another with insider abuse.

Problems of insider abuse and fraud were often related to the lack of oversight and controls. Several conditions, found more often in failed banks that experienced significant insider abuse and fraud than in failed banks that did not, may have provided the opportunity for such problems to become significant. Inadequate supervision of key officers, a dominant decision maker, unwarranted concentrations of credit to one industry, out-of-area lending, and inadequate guidelines for purchasing loan participations all appeared as significant conditions substantially more often in the failed banks with significant insider abuse or fraud than in other failed banks.

Generally, these conditions, with the exception of a bank's reliance on one dominant decision maker, were at worst marginally apparent at the healthy banks. About one in four of the continuously healthy banks had marginally unwarranted concentrations of credit to one industry, but fewer than 10 percent of the healthy or recovered banks had any of the other characteristics mentioned above. Apparently, proper supervision of bank officers and formal guidelines to monitor and control lending practices also helped to limit insider abuse and fraud.

External Factors—The Economic Environment

Seventy-three percent of the failed banks operated in significantly depressed economic conditions, while another 15 percent faced marginally depressed conditions. These depressed conditions usually resulted from the deterioration in the agricultural, oil and gas, or commercial real estate economies. Simply operating in depressed local economies does not, however, imply that a bank's failure is largely the result of the economic conditions. The study did show that an adverse economy was a significant factor in 35 percent of the failures. Even so, a depressed economic environment was the sole significant cause of failure in only 7 percent of the banks surveyed. The remaining failed banks that operated in depressed economies had significant internal problems as well.

The evidence from healthy and rehabilitated banks also supports our hypothesis that economic conditions are rarely the primary factor in determining a bank's condition. Fifty-nine percent of the rehabilitated banks and half of the healthy banks operated in significantly depressed economies. In fact, the study showed that economic conditions played a significant role in the decline of a larger percentage (39 percent) of the rehabilitated banks than of the failed banks. While many of the rehabilitated banks were assisted in their recovery by improving economic conditions, they also made the necessary managerial changes to promote recovery. Sixteen percent of the rehabilitated banks recovered in spite of operating in local economies that remained significantly depressed. Another 67 percent faced marginally depressed economic conditions during their recovery. Without the improvements in management, controls, and systems, these banks would have been far less likely to benefit from improvements in their economies.

Why Some Banks Recover While Others Fail

A number of factors may contribute to a problem bank's recovery. These include:

- changes in management;
- improved banking practices;
- changes in banking philosophy;
- capitalization; and
- improved local economic conditions.

In spite of the few lingering problems found at rehabilitated banks, their efforts to make important changes were clear. At the directorate level, changes in knowledge, involvement, and philosophy were evident. The OCC judged the boards of nine of every 10 recovered banks to be very active in overseeing the operations of their institutions. Although rehabilitated banks were not the victims of overly aggressive boards to the extent that failed banks were, all of those that did have this problem made appropriate adjustments. Furthermore, when the OCC's evaluation revealed a CEO who lacked ability or integrity, 90 percent of the rehabilitated banks replaced the CEO, while 76 percent of the failed banks did so.

The fact that rehabilitated banks, during their decline, were less likely to have an overly aggressive board of directors or to follow practices that might be deemed overly aggressive also worked in their favor. The study showed that overly aggressive behavior—undue emphasis on growth—is apparently a very risky strategy, largely because it leaves the bank exposed when the economy turns against it. If the growth takes place in a sector that is experiencing a speculative boom, for example, a downturn can be sudden and severe. Overly aggressive lending under such conditions may underlie a more rapid erosion of a bank's net worth and make recovery less likely.

Another important factor is that, relative to failed banks, rehabilitated banks had a much better record of compliance or partial compliance with administrative actions (*e.g.*, a memorandum of understanding, a formal agreement, a cease and desist order) taken by the OCC. The OCC took administrative actions in roughly similar percentages with the failed and rehabilitated banks. OCC examiners, however, judged rehabilitated banks to be in compliance or partial compliance with administrative actions that were in place at the time of bank examinations 86 percent of the time. They judged failed banks to be in compliance or partial compliance only 41 percent of the time.

The failure to comply with these regulatory actions does not simply mean that a bank was unable to change its financial situation. Rather, such failures imply that the banks did not make a serious or competent effort to meet the directives contained in the administrative action. Generally, even failed efforts are considered to be partial compliance ("meeting the spirit" of the action), and isolated exceptions to the letter of the action do not necessarily result in a judgment of unacceptable compliance.

Another factor that obviously affected a bank's ability to recover from difficulties was its capitalization. Capital serves as a buffer between operating losses and insolvency. The more capital a bank has, the more losses it can withstand. In other words, a bank's capitalization determines the amount of time it has to correct internal weaknesses or to outlast negative external influences. Whether a problem bank fails or recovers will often depend on the time it has before its losses completely dissipate its capital.

The OCC found that investors injected an average of $950 thousand in new capital per rehabilitated bank but only an average of $300 thousand per failed bank. Although the larger injections of capital into the rehabilitated banks may simply reflect the investors' "deep pockets" or their perception that these banks offered a better investment opportunity (*i.e.*, they were prospectively viable), they undoubtedly bought more time for the banks to complete their recoveries.

While a banker's job is undoubtedly easier in a strong economy, strong management and systems can prevent failure and promote recovery even during difficult economic times. Management and the board of directors must act positively to implement such controls and systems if they intend to safeguard the shareholders' capital over the long run. The evidence in the study shows that attention to and compliance with administrative actions taken by bank supervisory agencies have a positive impact on a bank's condition.

Why Some Banks Stay Healthy

The 38 healthy banks in the OCC sample were not free of managerial shortcomings or externally generated economic problems. As mentioned above, we chose the healthy banks so that 50 percent of them faced a significantly depressed economic environment. The OCC's analysis shows that these banks generally had fewer internal difficulties than the banks in the other groups. In fact, none of the healthy banks that operated in depressed economies had significant problems in any of the other broad categories previously mentioned. Moreover, only six had significant difficulties in more than three of the numerous specific, underlying areas of concern. This evidence, along with that from the failed and rehabilitated banks, confirms the OCC's belief that the best way for banks to weather an economic storm is to minimize internal shortcomings. A strongly managed bank with adequate systems that are in place and followed is best prepared to remain profitable through both good and bad economic times.

The healthy banks had many fewer managerial problems than the banks in the other groups. Without exception, examiners judged board supervision and general management behavior from the CEO down to have posed no significant problems for these banks. Rather, the CEO and other officers in the healthy banks showed significant strengths in their diverse backgrounds and experience in banking matters.

Officer and staff positions below the CEO level also appeared to have had an impact on a bank's success. The study noted a much higher level of overall management diversity and experience in healthy banks than in problem banks. Further, an assessment of the adequacy of officers and staff (number, tenure, turnover) showed healthy banks to be in a much better position than failed or problem banks; 92 percent of the healthy banks received very high marks for this characteristic compared to only 15 percent of failed banks. These statistics highlight the importance of capable, consistent support staff below the senior management level.

None of the healthy banks in the OCC sample experienced any significant insider abuse or fraud.

Although the healthy banks were not completely without weaknesses, their weaknesses were generally isolated and offset by strengths in other areas. The way to maintain a bank's health, therefore, appears to be to limit the number of shortcomings of management, the board of directors, and the policies and systems they put in place.

Conclusion

The study identified, through the evaluation of failed, rehabilitated, and healthy banks, the difficulties and conditions that result in problem and failed banks. Examiners and analysts focused on the relative importance of external economic factors and internal managerial factors. The study found that internal factors can have a great influence on the extent to which an adverse external environment harms the bank. The OCC sample includes banks that failed in reasonably good, as well as in bad, economic environments. It also includes banks that recovered from problems, and others that remained healthy in bad economic environments. The difference between the failed banks and those that remained healthy or recovered from the problems was the caliber of management. Banks succeeded by establishing and adhering to policies that would see them through both good and bad economic times. While the managements of these banks were not without problems, they tended to have problems in fewer areas, rather than difficulties in all areas as did most of the failed banks.

To get a better idea of how the healthy banks remained healthy in spite of poor economic environments, the OCC interviewed several of the banks' chief executive officers and board chairmen. The bankers who were interviewed each played an active role in overseeing a successful bank in an economically depressed region. Their comments support the results of the OCC's evaluation.

Without exception, they emphasized the importance of an active and involved board of directors. They said the board and management should work together within well-specified roles to establish realistic goals and a strategic plan for the bank. In other areas, the interviews revealed that these bankers generally had a well-conceived banking philosophy. They had formal, written policies in place. They kept lending limits low for all bank officers from the

CEO down. They established clear rules for documentation, collateral, and other lending procedures, and compliance was monitored through well-established review processes. Perhaps most important, given the troubled economic regions in which they operated, these bankers emphasized profitability and conservative lending, even at the expense of growth. Each of the bankers interviewed pointed to the overly aggressive pursuit of growth, especially among recently established banks, as a major weakness in the troubled banks in their area.

The opinions of these bankers, supported by the success of their banks, and the study's conclusions, supported by the OCC's analysis, clearly point to management shortcomings and inadequate board supervision as the critical cause of the bank failure.

Some might argue that the same internal weaknesses exist in many viable banks that operate in very healthy local economies, and they, undoubtedly, would be correct. But that is not really the issue. Banks are not in a position to exercise any great influence on the external conditions they face. They are, however, in a position to change their internal operating procedures. One thing is certain: external conditions will continue to fluctuate. The OCC study demonstrates that banks are able to remain healthy institutions throughout the fluctuations by establishing and maintaining strong internal policies, systems and controls. Without such policies they are more likely to succumb to the external fluctuations. Problem and failed banks are almost never simply the result of depressed economic conditions. In the evolving business of banking, successful bankers must understand the risks of the businesses in which they are engaged, ensure the expertise of their board and management, and establish the operating capability to handle the products and services they offer.

Appendices

Appendix A—Tables

Descriptive Characteristics of the Surveyed Banks

Banks by Asset Size

	Percent of		
Asset Size in $	*Failed Banks*	*Rehabilitated Banks*	*Healthy Banks*
0-15 million	30	16	13
16-30 million	34	41	26
31-50 million	15	14	24
51-100 million	12	17	29
100MM-1 billion	8	12	8
Over 1 billion	1	0	0

Bank Location by OCC District

	Percent of		
OCC District	*Failed Banks*	*Rehabilitated Banks*	*Healthy Banks*
Northeastern	3	2	0
Southeastern	4	2	0
Central	8	16	18
Midwestern	15	37	24
Southwestern	52	35	45
Western	18	8	13

Banks Operating in Depressed Local Economies

	Percent of Banks in Significantly Depressed Economies			
	Failed Banks	*Rehabilitated Banks*		*Healthy Banks*
		Before recovery	*After recovery*	
Operated under depressed economic conditions	73	59	16*	50
Agricultural	22	41	8	3
Mixed agricultural and oil and gas	15	4	0	5
Mixed agriculture and commercial real estate	0	0	2	0
Oil and gas	15	4	5	16
Mixed oil and gas and commercial real estate	3	2	0	11
Commercial real estate	14	2	2	16
Other	4	6	0	0

*Another 67 percent of the rehabilitated banks operated in marginally depressed local economies after their recovery.

Eight Broad Categories Where Weaknesses Had a Significant Impact on Decline

	Percent of Banks with Significant Weaknesses	
Categories	*Failed Banks*	*Rehabilitated Banks*
		(Before recovery)
Policies, planning, and management	90	88
Audits, controls, and systems	25	24
Asset quality	98	98
Liquidity and funds management	10	6
Nonfunding expenses	9	4
Insider abuse	35	24
Material fraud	11	0
Economic environment	35	39

Corrections of Management-Driven Weaknesses Were Important in the Recovery of the Rehabilitated Banks

Characteristic	Rehabilitated Banks					
	Declining Condition			Improving Condition		
	No	Moderately True	Yes	No	Moderately True	Yes
Poor judgment in decision process	14%	28%	50%	88%	12%	0%
Inadequate management, officers, or staff	22%	29%	41%	67%	31%	0%
Inadequate controls or key officers or departments	31%	24%	41%	94%	6%	0%
Inadequate or failed to follow loan policy	4%	16%	80%	65%	35%	0%
Inadequate problem loan identification system	2%	16%	82%	65%	31%	4%
Excessive growth relative to management, staff, controls, systems, funding	61%	18%	22%	100%	0%	0%

Problem and Failed Banks Lacked Important Management-Driven Strengths

Strong Policies, Controls, and Systems

Condition	Significant Positive Condition			
	Improving Banks	Healthy Banks	Failed Banks	Declining Banks
Systems to ensure compliance with policies and law	67%	45%	6%	10%
Loan policy	65%	50%	4%	4%
Controls over key bank officers or departments	94%	87%	16%	31%
Problem loan identification system	65%	58%	9%	2%
Management information systems	77%	71%	18%	26%

Loan Portfolio Management Practices Are Important Determinants of Asset Quality

Characteristic Present	Healthy Banks			Failed Banks		
	No	Moderately True	Yes	No	Moderately True	Yes
Liberal lending practices	84%	13%	0%	2%	10%	85%
Excessive growth relative to management, staff, systems, funding	84%	13%	3%	24%	22%	52%
Overlending	79%	11%	0%	5%	12%	73%
Collateral-based lending	60%	32%	3%	8%	27%	55%
Unwarranted concentrations of credit	76%	24%	0%	34%	22%	37%
Out-of-area lending	88%	5%	3%	41%	15%	23%
Excessive financial statement exceptions	37%	34%	29%	3%	16%	79%
Excessive collateral documentation exceptions	52%	39%	0%	5%	22%	67%

Distinguishing Features of Failed and Problem Banks With (and Without)* Insider Abuse and/or Fraud

Specific Condition	Percent of Banks with Significant Problems	
	Failed Banks	Rehabilitated Banks (Before recovery)
Decisions made by one dominant individual	74 (46)	67 (46)
Management behavior negatively affected an affiliate relationship	31 (6)	25 (3)
CEO of poor integrity	70 (21)	58 (8)
Inadequate supervision of key officers	79 (52)	58 (36)
Out-of-area lending	39 (4)	42 (8)
Inadequate guidelines for purchasing loan participations	31 (12)	8 (8)
Unwarranted concentrations of credit	49 (28)	17 (26)

*The number without parentheses is the percentage of banks with insider abuse or fraud that also had the particular characteristic. The number in parentheses is the percentage of banks without significant insider abuse or fraud problems that had the particular characteristic.

Administrative Actions With Problem Banks

Action Taken (*)	Rehabilitated Banks	Failed Banks
Memorandum of Understanding	12%	14%
Formal Agreement	47%	46%
Cease and Desist Order	69%	75%

*Percentages do not add to 100 because more than one action may have been taken against a particular institution.

Degree of Compliance With Administrative Actions

Compliance	Rehabilitated Banks	Failed Banks
Acceptable	45%	6%
Partially Acceptable	41%	35%
Unacceptable	14%	59%

Appendix B—Glossary of Terms

Summarized below are definitions of many of the terms/characteristics used in this paper. For each sample bank, scores were assigned to reflect the relative degree of presence or absence of these conditions.

Board of Director and Senior Management Characteristics

Board Lacks Necessary Banking Knowledge: Board members who fail to understand their responsibility to set policy and institute ways to measure management's performance. Directors who lack business experience or do not understand general banking procedures. For example, board members have a poor understanding of vari-

ous areas such as funds management, proper documentation for the types of loans being made, or proper control systems. The board may have approved or ignored situations or transactions which a knowledgeable director could be expected to question.

Board Uninformed of Bank's Operation/Passive Board: These are two distinct concepts, but are scored together because the effects are the same. An uninformed board may not receive good reports on which to base decisions. This could be a lack of reports or too many detailed reports hindering the ability to see trends or the larger picture. An uninformed board may be shielded from needed information by management. A passive board tends to be dominated by management or one or two members. While they may or may not be well informed, they defer to the leadership of management or a particular member without much dissent. Passive boards tend not to question or are easily convinced that a particular situation or transaction is normal, legal, or desirable.

Overly Aggressive Board: A board that sets growth or income as a prime goal to the detriment of asset quality standards or funding sources. A board may be aggressive by being liberal in credit views although they may also be passive, uninformed, or lack banking knowledge. An overly aggressive board seeks growth or profits without first properly ensuring that stable funding is available or that credit standards and controls are in place to minimize undue risk.

Decision-Making Process Lacks Proper MIS: Board/management does not have appropriate reporting systems to identify key trends, problems, asset quality, etc. Board/management reports may exist but may be inaccurate, lack key information, or be too detail oriented.

Poor Judgment in Decision-Making Process: This data element is intended to reflect instances where the board has simply made bad decisions in key areas which are not the apparent result of divided loyalties. A high rating for this element would ordinarily reflect a board and management that had reasonable access to information upon which to act but ignored that data or for other reasons made poor choices.

Decisions Made by One Dominant Individual: A bank where one person is clearly dominant with little room for opposing opinions or discussions. Often this person also holds a large block of stock. The individual may be unable to delegate and may be involved in too many routine decisions to see the larger picture or may be too strong willed to recognize errors or risks in his/her decisions. This element is not always negative, however. A dominant individual could be a very good manager. This element scores the existence of a dominant person, not its effect.

CEO Lacks Experience/Capability: New CEO, untested with limited or overly specialized experience as opposed to executive management experience in a bank environment. A CEO whose ability, judgment, training, or personality limits his capability to perform effectively as an executive officer of a bank. An example could be a CEO who just cannot say "no" or one who does not understand fundamental credit analysis.

CEO of Poor Integrity: A CEO who has divided loyalty or who has engaged in self-dealing or fraud. A CEO who places his personal financial dealings before the bank's. A CEO who may have lied to the board or examiners or who has difficulty in recognizing unethical conduct.

Management Team: Lack of Diversity and Breadth of Experience: (Qualitative assessment) A management team with limited training or experience for the types of business conducted. A management team that is less than fully competent for the situation. For example a management team could have many years' experience but it may be all in the same bank using out-dated methods. A quality management team must be able to evolve, to keep up with a changing industry, etc.

Inexperienced/Inadequate Management/Officer/Staff Other than CEO: (Quantitative assessment: number, tenure/turnover, etc.) Simply trying to do too much with too few people. A bank with high turnover in key areas. A small bank with only two officers trying to do the work of three or more.

Inadequate Controls/Supervision of Key Officers/Departments: Poor control or supervision of key areas. The CEO or board has failed to properly evaluate or review the work of certain areas. For example, a senior loan officer may be essentially unsupervised due to tenure and the trust placed in that officer by the board. This individual may initiate a large number of poor quality transactions before anyone is aware of the risks the officer is taking. Another example could be an investment officer who commits the bank to a large volume of inappropriate investments without management and the board consciously approving the strategy.

Inadequate Policies or Failure to Follow Policies (Loans; Investment, Asset/Liability Management [or funding], Concentrations [of assets]; Conflict of Interest): A bank which does not have such policies; where such policies are inadequate to guide officers in the types of business the bank was involved in; or where the board fails to require compliance with all or part of the policy. An example of this could be a bank where the board has adopted policies in all of these areas but where the policies are kept in the board minutes only. The policies are not actually used by officers to guide their decisions, and the board rarely, if ever, actually reviews or tests compliance

with the policies. Thus the board may have gone through the perfunctory exercise of adopting policies, possibly only to placate regulators.

Audits, Controls, and Systems

Inadequate Controls/Systems to Ensure Compliance with Policies and Law: Where a bank fails to have a system of checks and balances to ensure officers or employees operate within board policy and that transactions comply with law.

Inadequate Problem Loan Identification System: The board and management should be continuously aware of those loans which have deteriorated, need additional documentation, or have higher than normal risk. This should be accomplished by some form of internal loan review which identifies and reports such loans for board and executive review and action. A bank with no problem loan list or one that does not adequately measure risk or trends in the portfolio would have an inadequate problem loan identification system.

Asset Quality Management

Excessive Financial Statement Exceptions: A large number or dollar amount of loans which are not supported by current financial information on primary obligors or guarantors appropriate for the type of loan. Management should have sufficient information to make an informed credit decision regardless of the type of credit. In general, if exceptions total more than 7 percent to 10 percent of total loans, this item would be scored. However, a critical score would generally indicate more than 10 percent exceptions (15% to 20% or more) or significant exceptions in key loan departments or types of loans. Credit exceptions include such things as lack of a current balance sheet, income statement, or a cash-flow analysis for loans to be repaid from operations of the business.

Poor Collateral Documentation/Perfection: Significant overall level of collateral exceptions or significant exceptions in a particular type of loan. Collateral exceptions include failure to record liens, improperly filed liens, failure to inspect collateral, failure to perform lien search, failure to obtain loss payee clause on appropriate insurance, failure to obtain reliable appraisals, failure to control collateral, etc. Scoring for this data element is not as closely tied to percentages of the portfolio as financial statement exceptions.

Liberal Terms/Failure to Enforce Repayment (Inadequate collateral/capitalized interest): Where a bank makes loans with repayment terms that are indeterminate, bear no relation to the purpose of the loan (*i.e.*, 10 year loan on equipment with the expected life of five years), or are otherwise more liberal than would be expected for a given loan type. Failure to enforce repayment can include simply allowing customers to ignore payment terms. It can also include loans where payments are extended or the loans renewed frequently without requiring significant paydown, particularly if interest is added to the new loan from the old loan. Liberal terms, the failure to recognize problem situations, and postponing recognition of problems through renewals may result in the board's having a false sense of security. This could lead the board to take actions which would not be prudent if the true condition of the bank's loan portfolio were known.

Excessive Loan Growth in Relation to Management/Staff Abilities, Controls/Systems, Funding Sources, etc: In order for a bank to increase loans successfully, it must have a sufficient number of skilled officers and employees to handle the work load created by making the loans and also by monitoring and servicing the loans thereafter. The bank must also have sufficient funds (deposits, borrowings, or capital) to make loans. Losses can occur through narrowed or negative interest spreads if the bank's loan growth is funded by incurring a large amount of interest-rate risk (to add to the credit risk of the new loans) through borrowings or high cost, volatile deposits. Liquidity problems can also develop if available funding sources contract.

Out-of-Area Lending: If a bank makes loans to borrowers who are not in its normal trade area, the bank's ability to properly evaluate the loan and to monitor and service it is diminished. A normal trade area is the area where the bank makes most of its loans and receives most of its deposits, and in which it has a good understanding of the economics and practices. Many banks routinely have a few out-of-area loans to former area residents or affiliates of local businesses, etc. Where a borrower resides or conducts business is not the main issue. The key is whether or not the bank knows the customer and whether the bank can monitor the credit.

Overlending: High Loans to Debt Service Ability: Often occurs in tandem with liberal terms/renewals. Loans based on no or inadequate analysis of the borrower's actual capacity to pay. For example, making loans to a particular farmer because he has a large number of highly productive acres rather than actually determining if he can service the additional debt. Overlending includes character lending. Such loans are based on officer or board personal friendships or long-time associations with a customer, his good standing in the community, or reputation rather than the customer's ability to pay. It is assumed he can pay because he's a good farmer or a good person, or has always paid before. A large net worth or equity in a business or farm does not necessarily mean a customer has the cash flow to make required payments.

Collateral-Based Lending/Insufficient Cash-Flow Analysis: This item scores the bank's reliance on collateral values (or assumed collateral values) rather than ability to pay. This practice if often believed to be safe and conservative because the bank always has collateral. However, without an analysis of the customer's ability to pay, the bank is in a sense volunteering to buy the collateral. The collateral may decline substantially in value (*e.g.*, oil prices, farm land values), or the bank may fail to obtain a reliable appraisal of the collateral. When the bank does take the collateral, it often turns out to be worth less than the loan or is illiquid. This is particularly true if the collateral is specialized in nature.

Inadequate Loan Participation Purchased Guidelines: Although stated as a policy issue, the scoring of this item also reflects practice and procedures. Loans purchased (participations) from another institution may be out-of-area and are originated by another bank. The other bank usually retains the responsibility to service the loan. Thus, the buying bank often has little actual control over the credit and is usually not part of the initial negotiation of terms or evaluation of the loan proposal. Since the buying bank is exposed to more risk than on the direct loans it makes, such loans should be evaluated, documented, and monitored at least as well as direct loans made by the bank. A high rating for this element indicates a bank which has accepted poorly documented, high risk, poorly structured, poorly monitored, or out-of-area loans, without doing a good job of evaluating the credit on their own before buying, or without monitoring the purchased loans thereafter.

Unwarranted Concentration of Credit: A concentration of credit is a high volume of assets with very similar risk characteristics. A concentration is generally defined as more than 25 percent of total capital. Examples of concentrations are loans to one industry; loans to one group of companies or affiliated businesses; loans secured by the same type of collateral (soybeans, oil production); or out-of-area loans. Concentrations have a high level of risk for the bank because they amount to having all of the bank's eggs in one basket. For example, if oil prices go down, suddenly all oil production loans could be in trouble. It is normal for many community banks to have high concentrations related to local economic bases. For example, banks in rural areas will have a large portion of assets invested in farm loans and farm-economy dependent businesses. An *unwarranted* concentration is where the bank allows a concentration that is does not have to permit (*e.g.*, making loans to one group of affiliated companies or loans dependent upon the price of one commodity) rather then ensuring good diversity.

Asset/Liability Management

Reliance on Volatile Liabilities ($100M and greater certificates of deposit, not necessarily brokered): This element scores the extent to which a bank has relied on this volatile funding source to support assets, is related to failure to develop sufficient core deposits, but is different in that it focuses on the substitute for core deposits, considers the strategy of funding through the most volatile deposits. This type of funding may be used to support growth or replace other funding contractions, such as a decline in core deposits, which creates undesirable mismatches in maturities and interest-rate sensitivity.

Inadequate Liquid Assets/2nd Source of Liquidity: This element scores the bank's ability to convert assets to cash without sizable capital losses or to borrow sufficient sums to meet its needs. Such needs can include funding asset commitments, paying matured or withdrawn borrowings, or funding deposit contractions. A bank's primary sources of liquidity after cash equivalents are the investment portfolio and borrowings. If the market value of the bank's investments is below book value, the bank would realize a loss on the sale of such assets. Similarly, because of a bank's reputation or financial condition, lenders may not be willing to lend money to the bank. It is important to note that for this study, the data elements are scored based on the bank's initial liquidity problems. As problem banks become critical and fail, liquidity problems often become much more severe. Liquidity at failure is not scored here.

Insider Abuse

The term "insider" refers to principal shareholders, directors, executive officers, and other officers or staff who, through their position, are able to influence operations or decisions within a bank. Insider abuse is a general term that encompasses various activities which may or may not be lawful. While an abusive situation usually violates one or more banking laws or regulations, legal violations are not a necessary element. Insider abuse includes the broader range of actions where an insider takes action or fails to take action; where the bank is harmed, takes on additional risk, or loses an opportunity; and where the insider or a related party somehow benefits because of the insider position.

Self-Dealing: This is a term used to encompass those situations in which an insider's interest is placed above the interests of the bank or where insiders use their position or authority to grant loans or conduct other transactions for personal benefit or the benefit of relatives or related business interests. This can encompass many types of situations. One of the most common forms of self-dealing involves making loans to oneself and related businesses at preferential terms and/or with lowered underwriting standards for the purpose of making a profit in the side business.

It is not necessary that the person actually process the paperwork involved in such transactions, more important, the transactions must occur on the authority of insiders. Self-dealing can describe a single bank executive authorizing transactions for himself or various officers and directors approving transactions for each other. Self-dealing situations usually violate one or more regulations or statutes, but the term is sufficiently broad as to include situations where the transactions may be technically lawful but exhibit bad judgment or self-interest above the interests of the bank.

Board/SH (principal shareholders) Dependence on Bank for Income/Services: This element is similar to self-dealing in that directors and shareholders may have a number of transactions with the bank. However, when such transactions are handled at arms length with the full knowledge of disinterested directors, present no unusual additional risk to the bank, and are lawful, they are usually not considered self-dealing. This element is intended to score those situations where directors and shareholders may not be considered to be self-dealing but they become dependent upon the bank for income and services. This may occur through overlending or adverse trends in the interested party's business. For example, a director may start out as one of the bank's best customers, but, for whatever reason, reaches a point where he is dependent upon the bank for services and thus may no longer be able to make objective decisions as a director. He may develop divided loyalty or be much less willing to take action on other problem bank assets lest his own transactions be similarly treated.

Inappropriate Transactions with Affiliates. Affiliates are businesses or relationships which, due to common ownership, directors, or influence, are tied closely to the bank. This element scores the extent to which unlawful or detrimental transactions have occurred with affiliates.

Unauthorized Transactions by Management Officials: This data element scores transactions in which management has executed transactions for his or a related interest's benefit without full knowledge and authority from the board. It also may involve transactions which do not benefit the manager directly, but were not within the manager's authority or were done without board knowledge of what the manager was doing. For example, sometimes bank management disagrees with a board decision or is afraid to inform the board of a particular situation. An officer then acts on his own.

Fraud

Material Fraud: This element is intended to score situations where significant fraud has been discovered or is strongly suspected by examiners. Ordinary teller losses, etc., are not scored here. Material fraud generally includes the intent to deceive and/or an attempt to conceal. A high score would be attributed to this element if the fraud was large in relation to the bank's capital or was otherwise a significant factor in the deterioration of the bank.

Special Supervision/Enforcement and Compliance Update

OCC Special Supervision Division personnel in Washington and the six District offices are the focal point for supervision of community banks that require more than normal supervision. Through various oversight mechanisms, the divisions work to promote consistent and effective supervision and rehabilitation of problem banks. Despite these efforts, some national banks fail. Thus, an important objective is to ensure the orderly closure of insolvent national banks with as little disruption to the banking community as possible. We work closely with the Federal Deposit Insurance Corporation (FDIC) in an effort to provide for the smooth transition of failed national banks to new ownership and management.

The Enforcement and Compliance Division of the Law Department, together with District Counsel, is principally responsible for representing the Office in presenting and litigating administrative actions. The division also works closely with the Department of Justice and the interagency Bank Fraud Working Group to maintain the criminal referral process and promote interagency communications.

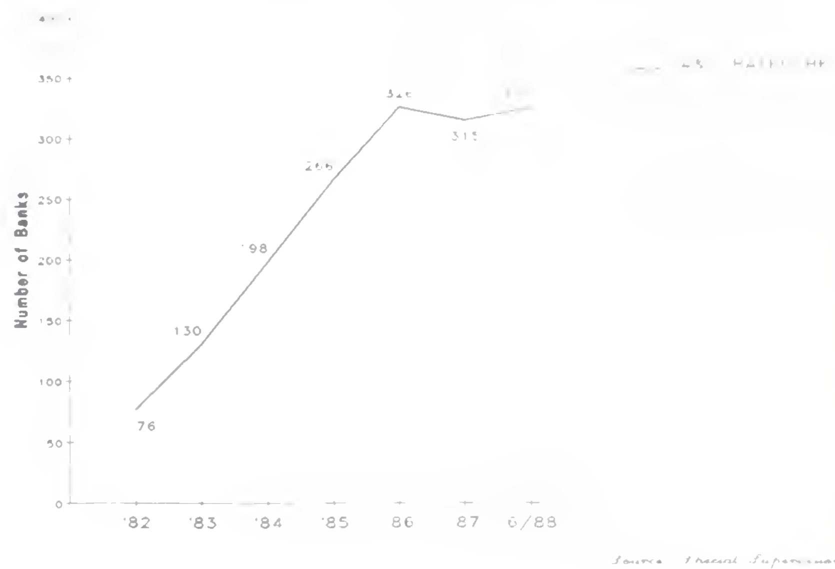
One of the OCC's principal objectives is to work with and assist the individual boards of directors and bank management to comply with law and provide for safety and soundness of their banks. In some instances, however, the OCC finds it necessary to document recommended corrective measures in administrative actions of varying degree. Special Supervision and Enforcement and Compliance work together closely on many enforcement actions. In the following sections, the two divisions provide a status report on problem national banks, provide an updated profile of national bank failures, and summarize enforcement actions taken during the first 6 months of 1988.

Problem National Banks

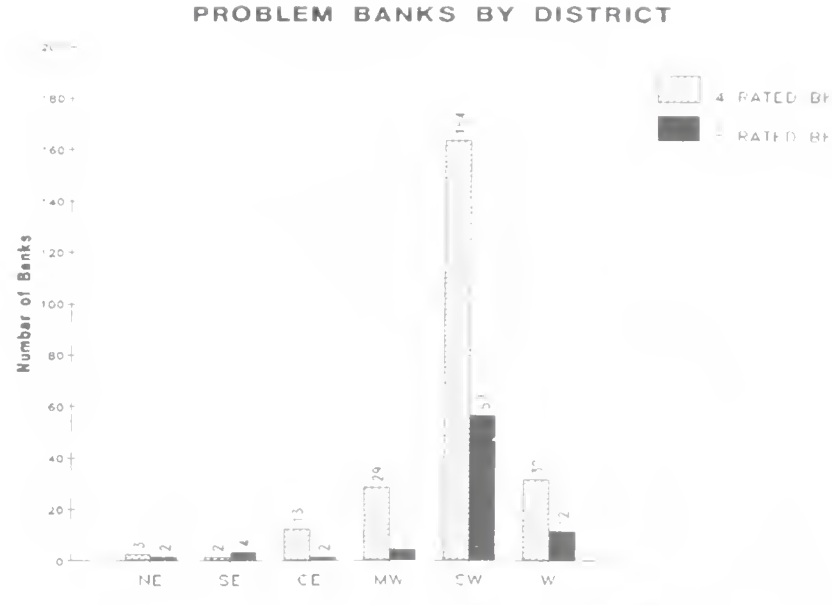
Banks are assigned ratings on a scale of 1 to 5. Banks in the most critical condition are rated 5. Problem national banks, defined as those rated 4 and 5, increased during the first 6 months of 1988. Although this ended the gradual decline in problem bank numbers during 1987, a levelling trend is still expected.

The majority of problem national banks are located in economically depressed sections west of the Mississippi River. The Southwestern District has the greatest number of problem banks. It should be noted that there are more individual banks in this district because many states have or had a unit banking structure.

PROBLEM NATIONAL BANK HISTORICAL TREND LINE

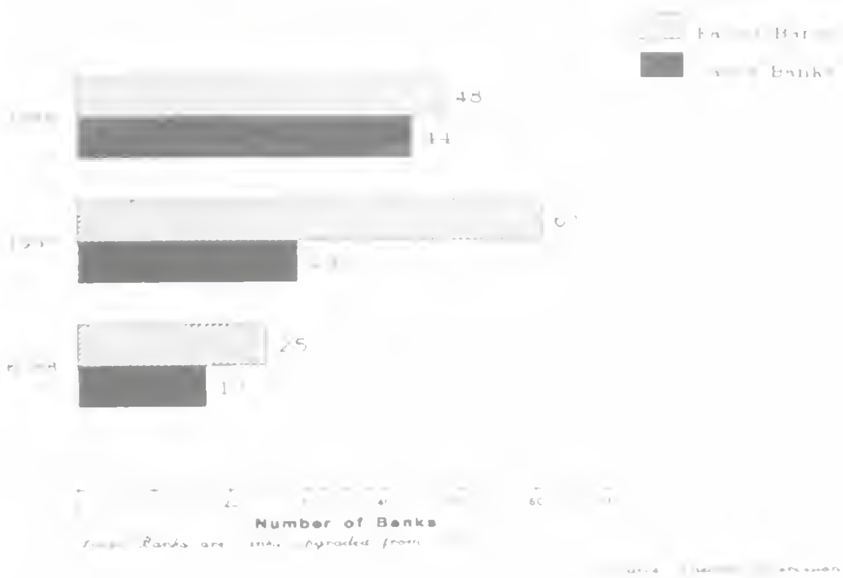


PROBLEM BANKS BY DISTRICT



Although the outlook for 5 rated national banks is not generally good, not all such banks fail. The following chart shows the number rejuvenated through capital injections, financial assistance from the FDIC under Section 13(c) of the Federal Deposit Insurance Act, administrative remedies, and efforts by management and the boards of directors. Innovative solutions by both regulators and interested buyers of troubled banks became increasingly necessary, particularly in the economically depressed areas of the country.

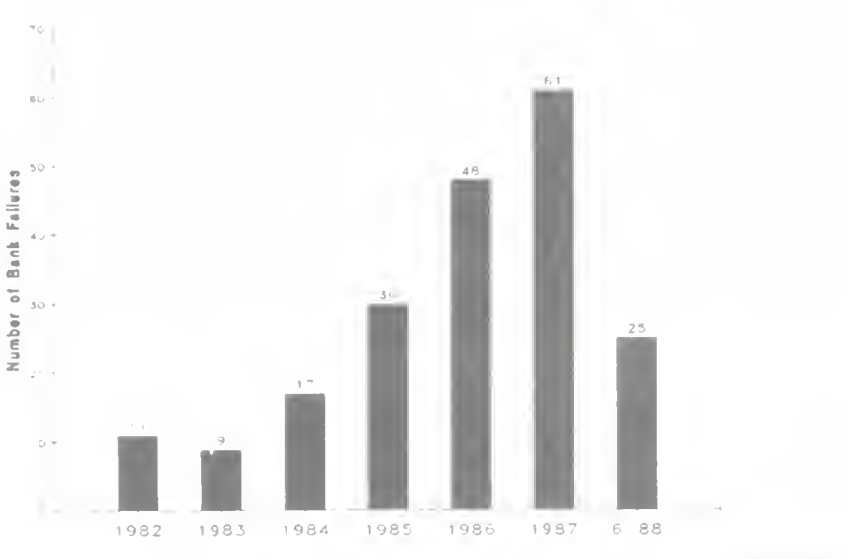
FAILED BANK SAVED BANK COMPARISON



National Bank Failures

There were fewer national bank failures during the first half of 1988 compared to the same time period 1 year ago.

NATIONAL BANK FAILURES

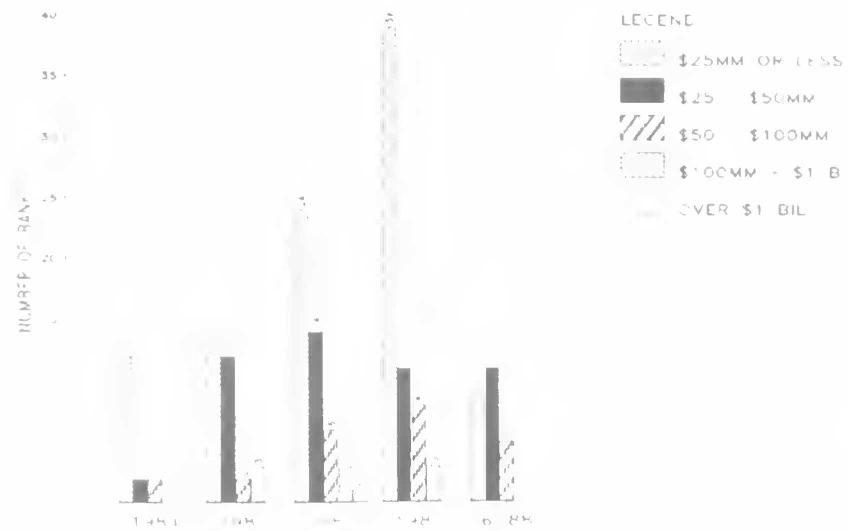


The FDIC has extended open bank financial assistance to an increasing number of both national and state banks. In many cases, failure has been averted through this assistance.

TOTAL BANK FAILURES AND
OPEN BANK ASSISTANCE TRANSACTIONS

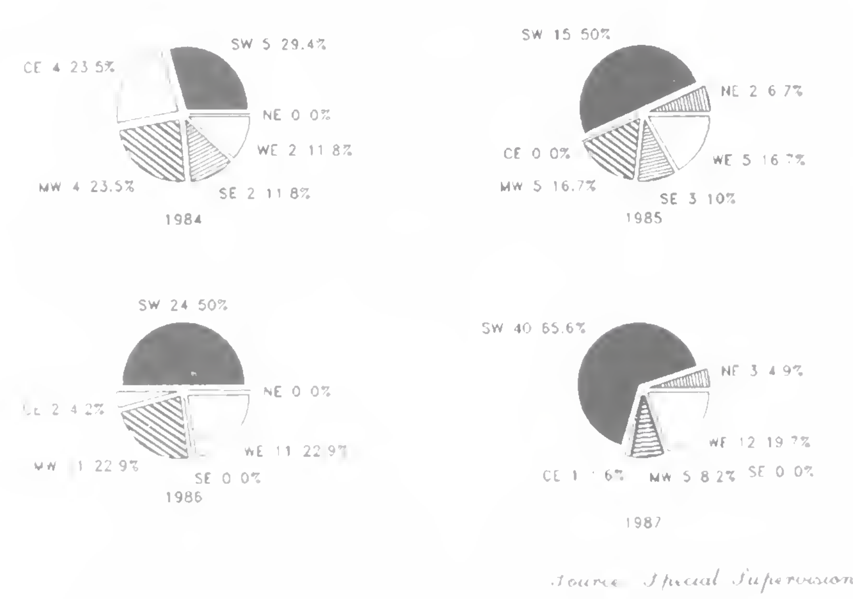
Almost all failed national banks were relatively small, most had total assets of $50 million or less. In the first 6 months of 1988, none of the failed national banks had assets of more than $100 million.

FAILED NATIONAL BANKS
BY ASSET SIZE



Most national bank failures have historically been in the OCC's Southwestern District, which is consistent with the concentration of problem banks in that area. During the first half of 1988, there were 22 failures in the Southwestern District. Texas had the most (18) national bank failures during this period.

NB FAILURES BY DISTRICT

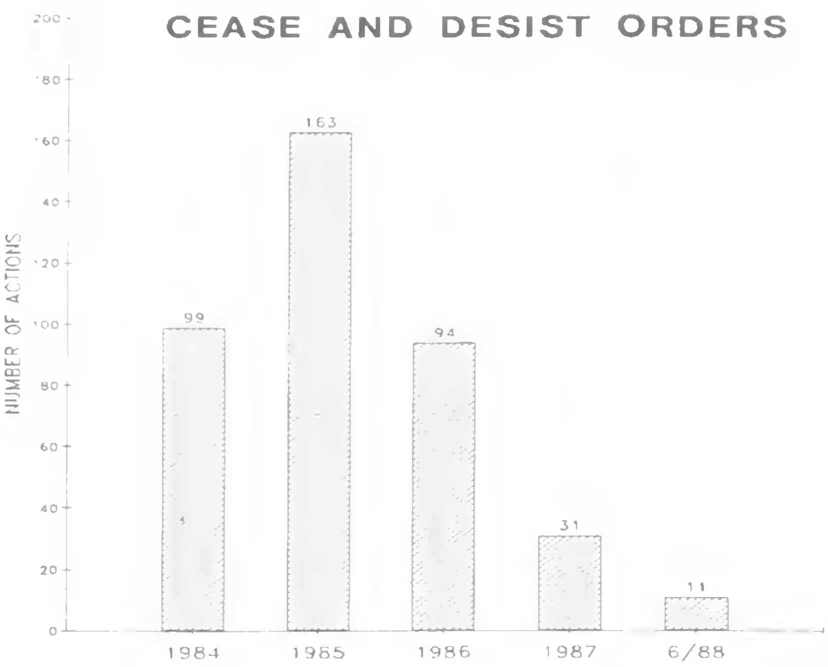


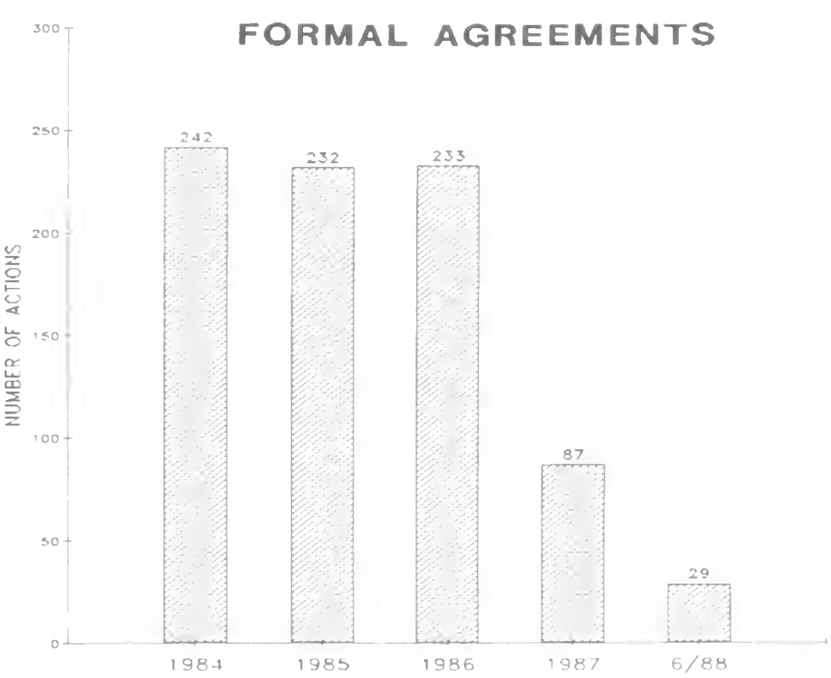
Source: Special Supervision

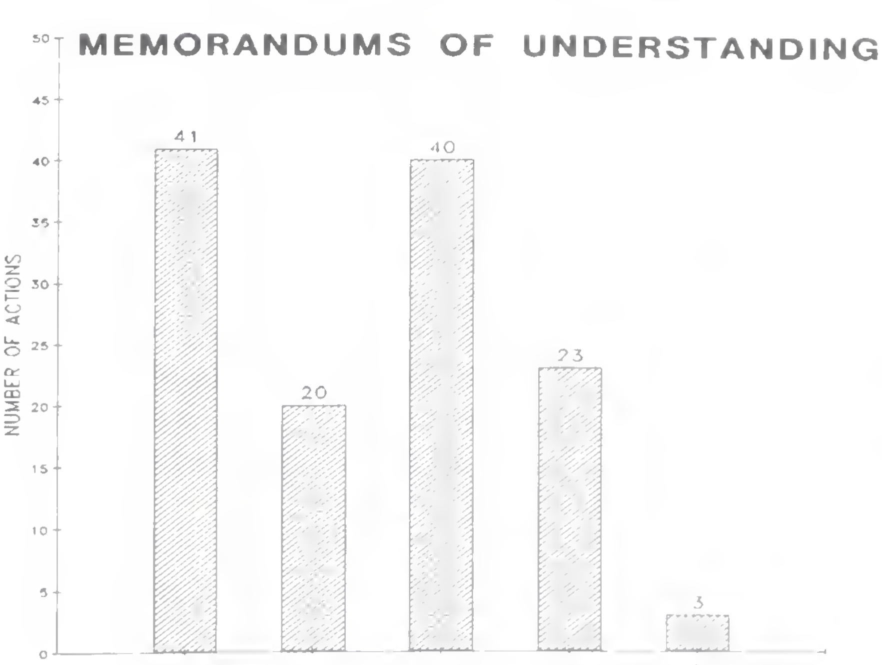
Enforcement Actions

Approximately 1 year ago, the Office amended its enforcement policy (*see Quarterly Journal*, Volume 6, Number 3). Pursuant to that policy, formal enforcement actions continue to be taken in cases of serious insider abuse, significant compliance problems, and instances in which problems were not corrected and prior supervisory efforts were disregarded.

As the following charts demonstrate, the number of administrative actions declined during 1987 and 1988. OCC believes the decline is the result of a reduction in a number of new banks requiring special supervision as well as the amended enforcement policy.

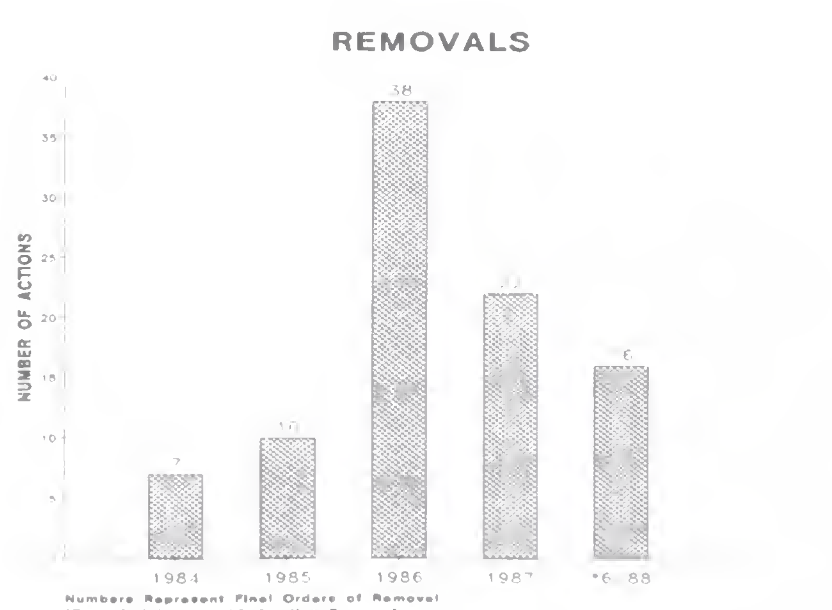




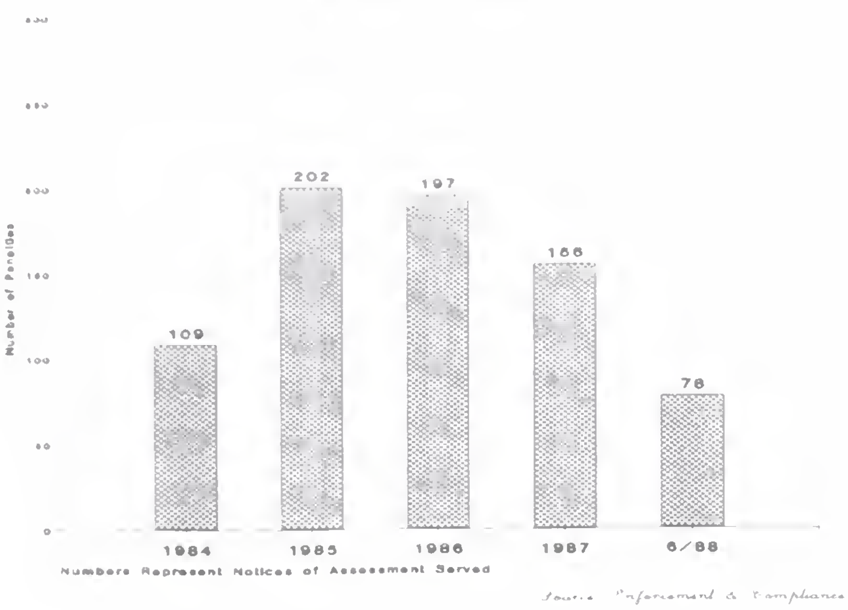


Some supervisory problems that previously would have been handled through administrative action were handled more informally. An example is a signed Commitment Letter which represents a pledge by the board of directors to take corrective action to address problems cited.

Occasionally, the OCC is compelled to order the removal from banking of bank officers and directors who have violated the law and/or acted in an unsafe and unsound manner. Removals are sometimes negotiated as part of the final settlement of significant civil money penalties. A civil money penalty can effectively deter, or encourage correction of, violations of laws, regulations, and cease and desist orders. Such a penalty may deter similar violations both by the persons against whom the penalties were assessed and by other banks and bankers.



CIVIL MONEY PENALTIES



Several of OCC's recent enforcement cases are described below. These cases have been chosen because they represent the types of actions taken by the OCC in response to serious violations of law, insider abuse, and unsafe and unsound conduct which significantly affect the condition of the bank.

The former president of a national bank had made loans to a company he owned. Although the loans were non-performing, he continued to advance funds and permit overdrafts in the company's checking accounts until the bank's lending limit was exceeded. The president also advanced a standby letter of credit for $34,000 which he concealed by not listing the contingent liability on the bank's books. This resulted in the bank's filing an inaccurate call report, thereby violating 12 U.S.C. 161. At the same time, the president had the company he owned build a residence for him. He altered the company's accounts receivable aging list and deleted his name to hide the relationship from the OCC's bank examiners. The president's company ultimately went bankrupt and the bank lost over $230,000. In response, the OCC assessed the president a civil money penalty of $20,000, initiated a removal action against him, and referred his conduct to the United States Attorney for prosecution.

The former president of a national bank pleaded guilty in federal district court to conspiracy to issue an unauthorized obligation of the bank (18 U.S.C. 371 and 1005). The conviction resulted because he issued two unrecorded standby letters of credit of $200,000 each. The OCC had a removal proceeding pursuant to 12 U.S.C. 1818(e) in process against this individual. His subsequent guilty plea made it possible to withdraw the Notice of Intention to Remove under 1818(e) and issue an Order of Removal pursuant to 12 U.S.C. 1818(g) based upon the determination that his continued service in banking would pose a threat to depositors and to public confidence in the banking system.

In another case, the bank's report of supervisory activity disclosed several repeat violations of an order to cease and desist. The most serious repeat violations included failure to appoint a senior lending officer; collateral and credit exceptions; and failure to adhere to the bank's capital plan, loan policy, and investment policy. The chairman's failure to adhere to the investment policy caused a severe deterioration of the bank's liquidity. All of the bank's directors were assessed and paid a penalty in 1987 for similar violations of the order to cease and desist. In response, the OCC assessed the chairman a civil money penalty in the amount of $20,000 and moved against the bank for district court enforcement of the cease and desist order.

The president of a national bank was assessed a $10,000 civil money penalty based upon his practice of favoring a particular bank customer by waiving fees and NSF (Non Sufficient Funds) charges and advancing funds through overdrafts. Although the customer had already borrowed to a non-conforming excess and had no further collateral available, the president advanced $5,400 against an uncollected deposit, resulting in an overdraft and violation of 12 U.S.C. 84. In an attempt to cover his actions and avoid the appearance of an overdraft, the president reversed payment entries of five other checks of this customer which had been paid and returned these five checks to the payment system, thus creating sufficient "float time" so that the customer could cover the overdraft. The falsification of bank records by the president was also referred to the United States Attorney.

The president of a national bank was assessed a civil money penalty of $7,500 and each director of the bank was assessed a penalty of $2,500 because the bank had repeatedly violated 12 U.S.C. 161 by failing to consolidate financial information relating to a premises subsidiary in numerous call reports. The bank had failed to correct this violation after having been instructed to do so by the OCC.

A bank's report of supervisory activity noted five violations of 12 U.S.C. 84, two of which involved the bank's president and a director, and two violations of 12 U.S.C. 375b. These loans resulted in losses of over $143,000 and contributed to the failure of the bank. In addition, it was learned that the same individuals were involved in the unsafe and unsound practice of extending, approving or participating in nominee loans. In response, the OCC assessed civil money penalties against the president, two vice-presidents and two directors in amounts ranging from $40,000 to $75,000 and initiated removal actions against these individuals.

The director of a national bank was assessed a civil money penalty of $5,000 for a violation of 12 U.S.C. 375b. The violation occurred when the bank paid an overdraft

on his account. The payment of the overdraft also resulted in a violation of the existing cease and desist order because the proceeds of the overdraft were deposited into the account of a related interest of the director. The cease and desist order prohibited extensions of credit to this director and his related interests. The director had been cited in prior examinations for similar violations.

Finally, violations of 12 U.S.C. 375a and 375b had occurred at a bank. The directors had been cited for similar insider violations in a previous examination. In light of this, the OCC assessed $5,000 civil money penalties against those directors who received direct benefit from the violations and $2,500 civil money penalties against those directors who did not benefit at all, but who shirked their responsibilities to guard against such violations.

Recent Corporate Decisions

The following are brief descriptions of various corporate decisions completed during the second quarter of 1988. The cases are provided for informational purposes only and are noteworthy because they represent issues of importance or unusual methods of accomplishing a given expansion activity. For further information, copies of the public section of the applications can be obtained from the Communications Division of the Office of the Comptroller of the Currency, Washington, D.C.

On April 7, 1988, the Office granted approval for First Chicago Futures, Inc., a proposed operating subsidiary of First National Bank of Chicago, to undertake an arbitrage and market maker operation in options, futures, and forward contracts related to T-bills, T-notes, GNMA obligations, CDs, Eurodollar time deposits, and other interest-rate denominated instruments in which the Bank was a cash-market dealer. First Chicago Futures, Inc., also proposed to become a floor trader in such instruments on various securities and commodities exchanges. All such activities had been approved for various banks in previous letters from the Office; however, this was the first case in which the combination of activities was approved for a single operating subsidiary.

Also on April 7, 1988, the Office approved an operating subsidiary for Merchants National Bank & Trust, Indianapolis, Indiana, to become the controlling, managing general partner of a limited partnership. The limited partnership will make loans, purchase mortgage-backed securities on the open market, and purchase loans, at their inception, from a mortgage-company affiliate. Limited Partnership Units are to be sold to investors by an unaffiliated investment banker. A unique feature of this proposal was that the subsidiary's interest in the limited partnership would only be 1 percent. However, the Office determined that since the subsidiary would be the sole managing general partner, it would have full operational control and therefore, the low ownership percentage was acceptable.

The Office approved two separate mergers which involved requests for expedited treatment due to the less than satisfactory condition of the target banks. First National Bank & Trust of El Dorado, Kansas (First National) applied to acquire the target bank under the emergency merger provisions of 12 USC 1828(c) which permits the Office to waive certain requirements when it finds it must act immediately or expeditiously. In this proposal, a 13c assistance package was ready to be signed by the bank and the FDIC. This assistance package was contingent on the Office's approval of the merger. Therefore, on April 13, 1988, the Office declared an emergency, and approved First National's proposal so that it could be effected immediately.

On April 19, 1988, the Office approved emergency merger processing for First Dakota National Bank, Yankton, South Dakota (First Dakota) to purchase a bank. However, this transaction was permitted to take place under the statutory reduced timeframes, as opposed to immediately, as permitted by 12 USC 1828(c)(4) and (6). In such cases, the period for comment is reduced from the normal 30-day comment period to 10 days. Finally, the minimum waiting period after approval for consummation of the merger was reduced from 30 days to 5 days.

On April 25, 1988, the Office denied an application to charter a national bank in Dewey, Oklahoma. The application was denied due to weaknesses in the operating plan compounded by expected poor economic conditions in the proposed service area. The Office did not believe that the organizing group possessed sufficient strengths to offset the weaknesses identified in the operating plan.

On April 28, 1988, the Office approved the Bankers' Bank of Kansas, National Association, which will be in Wichita, Kansas. A national bankers' bank is a bank which is owned exclusively by other depository institutions and is organized to engage in providing services for other depository institutions and their officers, directors and employees (12 CFR 5.27). Bankers' Bank of Kansas was organized by four national and twelve state banks although other banks are expected to be added to arrive at the required ownership structure of the institution (maximum ownership for each bank is limited to 5 percent). Primary services will include overline participations, cash letter remittances and clearing activities, cash management assistance, debit and credit cards, some securities transactions and safekeeping functions.

On May 6, 1988, the Office granted approval to Bank of Boston-Florida, National Association, Palm Beach, to relocate its Sarasota branch to a different site within the same city. The applicant is a national nonbank bank grandfathered by the Competitive Equality Bank Act of 1987 (CEBA). CEBA prohibits grandfathered nonbank banks from increasing the number of their locations after March 5, 1988. However, the term "number" was not defined. The Office approved the relocation, determining that, as a matter of policy, relocations of existing offices

are not prohibited by CEBA because they do not increase the number of existing offices of the applicant bank.

On May 10, 1988, an application for a proposed new bank in Anaheim, California, was denied by the Office. The bank was to be a vehicle to receive and distribute community development block grant funds. The Office's denial was based on inconsistencies in the operating plan, failure of the applicants to address probable major changes in the grant program which the Office had identified, the proposed president's lack of experience in this specialized area, and the remaining organizers' lack of knowledge about bank regulatory policies and procedures.

On May 18, 1988, the Office approved an application from Citibank (Maryland), National Association, to issue $146 million of limited life preferred stock. This proposal was unusual because the stock was to be used as payment for a credit card portfolio purchased from a Citicorp non-banking subsidiary. In accordance with 12 USC 371c, the low quality portion of the portfolio ($29 million) was contributed to the bank's surplus account. Sale of the remaining $146 million, however, would violate the size restrictions for an interaffiliate transaction (10 percent of the buying bank's capital) unless the sale could be characterized as a capital injection. The preferred stock was proposed to have an average life of only 3 years, which equaled the estimated life of the receivables purchased. However, for an issue to qualify as capital, 12 CFR 3 requires an average life of 7 years and requires that all such capital not exceed 50 percent of primary capital. The regulation also grants the Office discretionary authority to waive these requirements. Since the portfolio was being purchased net of an adequate loan loss reserve and Citicorp agreed to forgive that amount of the preferred stock's principal equal to any charge-offs exceeding the reserve, the Office did not perceive any supervisory concerns. Waiver of the 12 CFR 3 maturity and percentage requirements was thus approved to allow the issue to qualify as capital, thereby complying with 12 USC 371c and facilitating a legitimate business transaction.

On May 23, 1988, the Office denied a proposal to charter a new national bank in Brunswick, Georgia. The Office's denial was based upon the less than satisfactory qualifications of the organizing group and their proposed chief executive officer, and the fact that the organizers were not knowledgeable about the operating plan. The Office determined the prospects of success for the proposed new bank in this competitive market were weak.

The Office approved on May 25, 1988, the last of its applications for a bank of deposit in the District of Columbia. Greyhound Commercial Bank, Washington, D. C., would not be a national bank, but rather a bank established under the provisions of D.C. Code Ann. 26-103. It was organized to further the long-term marketing and development strategy of Greyhound (the Parent Corporation) and would offer services primarily involving federal equipment financing, commercial finance, and commercial real estate financing.

On May 27, 1988, the Office conditionally approved four corporate reorganization mergers involving twelve subsidiary banks of Norwest Corporation, Minneapolis, Minnesota. The conditional approvals required the banks to expand their CRA statements to encompass all of the credit services and programs the banks intend to offer, establish consumer advisory boards and reconsider and redefine, if necessary, their various community delineations.

On June 2, 1988, the Office denied a branch application submitted by Chestnut Hill National Bank, Philadelphia, Pennsylvania, due to the bank's inadequate performance under the Community Reinvestment Act and continuing consumer compliance problems. It was noted that the bank failed to make significant corrections between examinations after the district had adequately documented and communicated the Office's concerns to bank management.

On June 3, 1988, the Office approved ten full-service charters for FirstBank Holding Company of Colorado, Lakewood, Colorado., The banks will provide basic retail banking services and will be located in King Soopers stores in the Denver metropolitan area. In granting these approvals, the Office also permitted the banks to be chartered with $250,000 in capital, an exception to the usual minimum capital level of $1 million, because of the type and volume of proposed business to be generated.

Also on June 3, 1988, the Office approved emergency merger processing procedures for a corporate reorganization involving a national bank in San Antonio, Texas and a state bank affiliate pursuant to 12 USC 1828(c)(4) and (6). The statute permits the application to be processed expeditiously. On June 27, 1988, the Office actually approved the corporate reorganization merger. In January 1988, the Office had denied a similar proposal by the applicant because of significant concerns about the ability and willingness of existing directors and management to pursue and achieve a workable recapitalization plan for the troubled institutions. In the current application, however, new management and capital (in addition to FDIC assistance) were proposed and the prospects for the resulting organization appeared favorable.

On June 15, 1988, the Office granted Union National Bank of Oklahoma, Temple, Oklahoma, preliminary approval to reduce its capital from $1,064,000 to $564,000, another example of an exception to the Office's $1 million minimum capital requirements. The reduced capital

was believed appropriate in light of the limited services offered by the bank (primarily credit card business) and a unique arrangement with an affiliate to participate, without recourse, in 98 percent of the credit card receivables.

On June 17, 1988, an application to establish a national bank in West Sacramento, California, was denied. The proposed new bank was denied due to deficiencies in the operating plan, the lack of involvement by the organizing group in developing the operating plan, minimally acceptable capital, and the group's unacceptable approach to the Community Reinvestment Act.

The Office granted conditional approval to charter Atlantic National Bank, Los Angeles, California, on June 17, 1988. In granting conditional approval, the Office noted that the proposed chief executive officer was capable, but lacked certain banking experience necessary to guide the bank in its early years. The condition required the organizers to employ a qualified chief financial officer with independent bank experience.

On June 22, 1988, the Office approved an operating subsidiary for Marine Midland Bank, National Association, New York, which represented the bank's first step toward the acquisition of a municipal securities advisor. The subsidiary proposed to invest $300,000 in subordinated notes of Enright & Company, an advisor to issuers of taxable debt. The notes will be convertible into a limited partnership interest of 17.5 percent with the subsidiary also receiving an option to acquire the entire company for $1 million. The novel aspects of this proposal were the conversion/option features; however, it was permitted since it was not intended as a passive investment. The proposal was conditioned upon compliance with regulations of the Municipal Securities Rulemaking Board since those regulations would be applicable if the activities were conducted within the bank.

In accordance with the provisions of 12 USC 214a, on June 27, 1988, the Office granted written permission for Oak Forest National Bank, Longview, Texas, to publish notice to shareholders of a proposed statewise merger only once. The publication requirement states that a bank must publish notice "once a week for four consecutive weeks." This exception is rarely requested but was justified based upon the condition of the national bank.

On June 29, 1988, the Office granted conditional approval for Whitney National Bank, New Orleans, Louisiana, to establish a branch. The conditions required the bank to take specific action to improve its Community Reinvestment Act (CRA) performance. Conditional approval reinforced the Office's supervisory efforts and supported corrective actions bank management had agreed to take after a recent compliance examination

In a similar case, on June 29, 1988, the Office granted conditional approval of two branch applications submitted by Jefferson National Bank, Charlottesville, Virginia Deficiencies had previously been noted in the bank's CRA performance. As such, strong conditions were imposed to ensure improvement before final approval to operate the branches was granted.

On June 29, 1988, the Office denied an application to establish a national bank filed by a group of individuals who established another national bank which opened in 1986. The existing national bank is the subject of supervisory concerns. The Office concluded that problems in the existing bank must be corrected before the Office will authorize additional expansion through a new bank.

United Citizens Bank, National Association, Los Angeles, California was approved by the Office on June 30, 1988. The new bank was established in order to serve the Korean community in Los Angeles. The Office noted that the proposed chief executive officer had strong credentials, the organizers had very strong ties to the targeted community, and that similar new banks had been successful in the recent past.

In mid-June 1988, the Office received an application from Union Planters National Bank, Memphis, Tennessee, to issue up to $50 million in subordinated debentures to private investors. The Office's review identified various restrictive covenants and acceleration clauses which are not generally permitted. The Office met with representatives of the bank who indicated that our objections to certain covenants would increase the cost of the debt to the issuer and could restrict some banks' access to certain capital markets. Through further internal discussion, it was determined that sufficient safeguards were in place to eliminate part of the Office's concerns (for example, actions by subsidiaries which could trigger acceleration must receive prior approval from the Office). However, two remaining covenants raised concerns regarding the potential need for the bank to raise capital in the future and undue restrictions on the overall operations of the bank. Therefore, on June 30, 1988, the Office conditionally approved the proposal and required elimination of covenants limiting the ability of the bank to issue certain additional debt instruments in the future and requiring maintenance of certain net worth ratios.

Finally, the following table summarizes the Office's activity with respect to cross-country branch applications filed as a result of the *Deposit Guaranty decision - Department of Banking and Consumer Finance v. Clarke*, 809 F.2d 266 (5th cir. 1987), *cert. denied*, 55 U.S.L.W. 3853 (June 22, 1987).

Status of Cross-County Applications as of June 30, 1988

State	Received	Approved	Denied
Arkansas	23	0	0
Alabama	1	0	0
Florida	11	1	0
Georgia	1	0	1
Indiana	1	0	0
Louisiana	22	21	0
Michigan	2	0	0
Mississippi	2	2	0
Missouri	2	0	0
New Mexico	1*	0	0
Oklahoma	3	0	0
Tennessee	21	16	0
Texas	6*	4	0
Wisconsin	1	0	0
TOTAL	97	44	1

*Includes a Corporate Reorganization

The volume of activity in cross-county branch applications continued to increase in the second quarter. The Office reviewed 22 additional branch applications. Those states with the most applications filed during the quarter were Florida (8 applications), Tennessee (5 applications), and Louisiana (5 applications). During the quarter, the Office approved a total of 21 applications, 15 in Louisiana, one in Florida (the only state where the Office had not previously approved an application), one in Mississippi, and two each in Tennessee and Texas. The only filing from a new state during the quarter was received from Associated Citizens Bank, National Association, Marshfield, Wisconsin.

Speeches and Congressional Testimony

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Morin Center for Banking Law Studies, Boston University, Boston, Massachusetts, April 19, 1988

Visiting Boston without your thoughts turning to politics is about as hard as visiting Detroit without them turning to automobiles: almost impossible.

In many ways, Boston has just as much right to the title "political capital" as Washington does. From its beginning as a Calvinist theocracy, the Boston area became, sequentially, the wellspring of Revolutionary sedition, the hotbed of abolitionist sentiment, and the nursery for New Frontier visionaries.

In addition, over its long history Boston has been what one writer calls "a net exporter of political talent, of all stripes, to the nation." The city's contribution to the current crop of Presidential contenders shows just how strongly that impulse is still felt here.

As it is commonly viewed, however, politics isn't entirely, or even predominantly, a high-toned story of public figures acting in the public interest . . . of reformist movements that transform the nation . . . of the passage of power to a new generation of idealists and activists . . . or even of talented individual players who, through luck and pluck, make it to the national league.

Most of the time, politics is seen as the seedy and somewhat distasteful process that determines, to use an often quoted phrase, who gets what, when, how and where.

The title of this panel on restructuring the financial services sytem: *The Conceptual Framework: Perspectives and Realities* itself reflects the two natures of politics as politics is widely perceived: "perspectives" — in other words, what should be done — the ideal, and "realities" — in other words, what can be done — the possible, all of which assumes that what we can do is something different, something less, than what we should do, because what we can do is limited by the nebulous concept of "political constraints."

To put it another way, after the debate ends, the dealing begins, and almost everyone accepts that outcome because almost everyone expects nothing more from the political process.

The risk in having a panel such as this one today, with different people discussing detailed proposals, is that by focusing on the details we will lose sight of the important question: must financial industry restructuring be the result of the distasteful process of deciding who gets what, when, why and where?

I, for one, don't accept that the restructuring of our financial system must necessarily be shaped by the process of politics as ususal.

I, for one, believe that financial system restructuring must be designed, not to balance the special interests, but to benefit the public interest.

When the conceptual framework to restructuring is dictated by give-and-take, rather than by reason and logic, you end up creating future problems as you try to solve present ones. Nothing offers greater support for that observation than the legislation the Senate passed three weeks ago, legislation with ominous implications for the national banking system.

As you know, that legislation would go a long way in erasing Glass-Steagall Act prohibitions on what banking organizations can do in the securities field. Immediately upon enactment, it would allow a securities affiliate owned by a bank holding company to engage in securities activities except underwriting corporate debt and equity and mutual funds. The underwriting of corporate debt and mutual funds would be phased in after six months. The underwriting of corporate equity would be possible only if Congress approved a joint resolution to that effect submitted by the Secretary of the Treasury before January 1, 1991, and voted on before April 1, 1991.

There is much in the legislation that is progressive, much that would be beneficial, much that would allow banks to be more competitive. But as welcome as this long-overdue legislation is, it brings with it a bizarre twist on the whole subject of financial system restructuring.

As the supervisor of the national banking system, I must point out that in one very significant way the legislation, as it now stands, can only be described as regressive in intent and protectionist in content. It is regressive and protectionist because it would extend the federal laws' insulation of the insurance industry from meaningful bank competition indefinitely. The insurance industry sought such insulation, and has achieved its goal so far.

It has achieved its goal through the practice of politics as the process of who gets what, when, why and where. This special interest group brought to bear raw political power to create a mess that benefits no one but themselves.

How so? In general, under the pending legislation new insurance activities by any bank would have to stop at

the borders of the state in which it operates. That end is bad enough because any government restriction on any legitimate business activity ultimately ends up affecting the bottom line. But the legislation goes even farther.

It arbitrarily divides banking itself into Balkan-like states, each under its own rules about what different classes of banks can and cannot do. Under the proposed legislation the insurance activities of state-chartered institutions would be governed, for the most part, by state law. The proposed legislation would limit the offering of insurance products to persons within the state that the bank calls home. But other than that, with one important exception I'll get back to in a moment, state law would establish the restrictions, if any, for state-chartered bank activities in the traditional insurance field.

National banks, however, would be far more restricted in what they could do. With two limited exceptions, national bank insurance authority would be generally limited to the sale and underwriting of credit life, credit disability, and involuntary unemployment insurance on loans. Several insurance activities the OCC has already determined to be permissible for national banks would be forbidden. Just to name one: acting as agent for sale of title insurance, an activity clearly incidental to banking, or any other lending, for that matter, since title insurance is a prerequisite to any prudent lending secured by real estate.

With the exception of the very limited range of activities the Senate bill would authorize, the legislation would, in effect, forbid the OCC from determining that any insurance activity is "incidental to banking" under the National Bank Act.

Equally offensive, getting bank to the exception I mentioned before, even state banks would be arbitrarily divided into two classes: those that are independent or affiliated with a bank holding company in one state would be able to offer insurance products, while those banks affiliated with a holding company that is headquartered in another state could not offer insurance products, even in the state in which the banks were located.

Now if you have having trouble following the logic of all this, there is a good reason.

The logic behind this scheme is crazy.

It reminds of the time my nine-year-old nephew asked me: "Why are fire engines red?" I said: "I'll bite — why are fire engines red?" And he said, "I'll tell you. Fire engines have four wheels and eight men. Four and eight make twelve. There are 12 inches in a foot. A foot is a ruler. Queen Elizabeth is a ruler. That's also the name of the one of the largest ships in the ocean. The ocean is full of fish. Fish have fins. The Finns fought the Russians and the Russians are red. Fire engines are alway rushin' here and there. Therefore, fire engines are red."

Yes, the logic of the insurance provision in the proposed legislation is crazy — unless you happen to be in the insurance business. If you are, the logic is simple: if you cannot stop bank insurance activities completely, limit them as much as you can. And make whatever you cannot stop so complicated that it numbs the mind and ensures that, even if the scheme works in theory, it will never work in practice. If, in the process, you can divide banking, an industry that's not exactly monolithic to begin with, so much the better.

While it is true that this provision is limited to insurance activities, what concerns me is the precedent it would set. As we continue to restructure the financial services system in the future, will we be trapped into playing tit-for-tat in regard to banking, closing one avenue of diversification for every avenue that we open?

That seems to be to be a strange way to achieve competitive equality, fairness, among financial service providers. Indeed, as Comptroller of the Currency, I am concerned with the dissimilar treatment this legislation would impose just on banks. Clearly, some state-chartered banks would win, while other state-chartered banks and all national banks would lose, under the insurance activities provision.

I am concerned over any prospect of creating a banking system where state-chartered banks have under federal law significant competitive advantages over their federally-chartered counterparts, or, for that matter, a system where states would be precluded by federal law from allowing their chartered institutions from matching the competitive opportunities granted to national banks.

And, as Comptroller of the Currency, I certainly am concerned by any move that would decrease or dilute the value of the national bank charter, relatively and absolutely, as this legislation as it now stands would do. But this is precisely the kind of chaos that results when financial restructuring is approached as an interest group balancing act.

The problem isn't just that the insurance industry is extraordinarily adept at using the rules of banking legislation to its own advantage. The problem is the rules themselves, rules that almost everyone, including some bankers, play by.

Over the decades, all the players who are financial service providers have grown accustomed to using legislation as a means of protecting their markets against competitors. Bankers have used branching restrictions to keep other bankers at bay. Bankers have used legislation to

limit competition from the thrift industry and the credit unions. Bankers have looked to federal legislation in the last 7 years, not as a means of modernizing the banking system, but merely as a mechanism to achieve new powers for banks.

At the same time, the securities industry and the insurance industry have looked to law and legislation as shields to keep bankers out of their markets. Almost everyone has taken a short-term attitude of protecting, and perhaps expanding, their turf while ignoring the fundamental, long-term problem: how to achieve a financial services system that meets both the public's need for products and services and the public's need for safety and stability.

Because of the delay in coming to grips with this fundamental, long-term problem, our financial system is at the same time more inefficient and less stable than it ought to be. But we cannot — and we won't — come to grips with that problem as long as restructuring is approached as just another turf battle.

Over the last 7 years many people in Washington — in the Administration, in the banking agencies, and elsewhere — have worked to lift the discussion from a battle over turf to the forging of a new financial services system, a system that will come to grips with the fundamental problem.

We have achieved significant progress with opinion leaders, with Congressional leaders, and with the leadership of segments of the financial services system. But throughout those years, our effort has again and again been undercut, the insurance provision of the Senate's legislation being merely the most recent example.

I hope that the members of the Senate approved this legislation only because the lawmakers didn't have the time to understand the facts. I hope this because when rational people find that the facts as they understand them change, they change their response, as a neighbor of mine several years ago found out.

My neighbor was a real dog lover. One day his dog died. He missed him like a friend. In his brokenheartedness he felt the only comfort he could get would be to see that the dog had a burial ceremony as elaborate and as solemn as a human being would get. He was not a churchgoer, but there was a Methodist church nearby and it was there he applied. The Methodist minister heard him out politely but could offer no hope.

He said: "I am sorry sir, but it would be blasphemy to bestow upon an animal lacking a soul the ritual we offer a human being made in the image of God. This, however, may not be the view that all religions take. There is a synagogue two blocks down. Their attitude may be different."

The rabbi listened but was even more discouraging. "You must understand," he said, "that a dog is ritually unclean. I am afraid I could not lend this temple to such a ceremony. It may be different elsewhere, however. There is Catholic church a few blocks from here, and perhaps they can help you."

Father Riley listened and shook his head. "I appreciate the sensitivity of your feeling and sympathize with you in your sorrow," he said. "A dog can be a wonderful companion. Still, it cannot be done, I'm afraid."

By now my poor neighbor was in despair. He said: "Well, Father, if it can't be, it can't be; but it grieves me. Why to show you how much this meant to me, I was prepared to donate ten thousand dollars to any house of worship that would have taken care of my little dog for me."

And as he rose to go, Father Riley lifted a hand and said: "Not so fast my son — perhaps I was hasty — why didn't you tell me the dog was Catholic?"

The facts about the financial system restructuring are out there for all to understand. They have been debated for years. The testimony from Congressional hearings on the subject alone runs to thousands of pages. There is no longer any excuse for inaction.

What it all comes down to is a question of will. Will the members of Congress have the will to rise above politics as usual and approach restructuring, not as a reshuffling of entitlements, not as a division of spoils, not as "a strife of interests masquerading as a contest of principles," but as a public policy issue requiring a response in the public interest?

I can only hope that — like Father Riley — they will find that they have been too hasty in the past and will act so all can benefit in the future.

Statement of Dean Marriott, Senior Deputy Comptroller for Bank Supervision Operations, before the House Subcommittee on General Oversight and Investigations of the Committee on Banking, Finance and Urban Affairs, Washington, D.C., April 21, 1988

Mr Chairman and members of the Subcommittee, I am pleased to have the opportunity to testify on the joint efforts of the U.S. banking agencies to develop risk-based capital standards. The Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency published a risk-based capital proposal in the *Federal Register* on March 15, 1988. Public comments are being accepted through May 13, 1988. We encourage input from Congress, the industry and the public.

The proposal is based on the framework for international capital standards established in December 1987 by the Basle Committee on Banking Regulations and Supervisory Practices (frequently referred to as the Cooke Committee), which meets under the auspices of the Bank for International Settlements.

Efforts to develop a risk-based capital measure in the United States date back a number of years, and the three U.S. banking agencies first issued a risk-based capital proposal for public comment in 1986. A majority of the public comments on the 1986 proposal from banks expressed general support. Many respondents asserted, however, that without similar requirements for foreign competitors, the proposed requirements would put U.S. banks at a competitive disadvantage.

In light of those concerns, the U.S. agencies began working with the Bank of England on the development of a common approach. In January 1987, a joint U.S./U.K. Risk-Based Capital Proposal was published. The scope for international convergence expanded once again when the Cooke Committee took the U.S./U.K. Proposal under consideration and addressed the possibility of expanding the agreement to include all of the countries represented on the Committee.

As a result of the Cooke Committee's efforts, an international framework, on which the current U.S. Proposal is based, was published in December of 1987. Thus, the current proposal is the culmination of several years of work to develop internationally consistent capital standards.

These efforts are particularly important today since advances in technology and deregulation have resulted in increasing globalization of the banking and financial markets around the world. U.S. multinational banks increasingly compete directly with banking organizations from other countries. It has thus become particularly important to develop capital standards that are internationally consistent, and that would foster fair and equitable international competition in a safe and sound environment.

We realize that the proposed risk-based capital guidelines are not likely to be perfect, and by necessity represent various compromises between the U.S. and the other 11 Cooke Committee conferees. However, we believe that the proposed guidelines offer important improvements over the current capital adequacy standard in ways that I will now describe.

Flaws in the Existing Capital Standard

The current capital standard, which requires banks to maintain primary capital of at least 5½ percent of total assets and total capital of at least 6 percent of total assets, has several flaws.

First, it fails to formally differentiate between high risk and low risk assets. For example, U.S. Treasury obligations and loans to unrated commercial borrowers require identical capital. This problem results from the fact that both the primary and total capital ratios use the volume of total assets as a proxy for the amount of risk a bank faces. This is obviously a very crude measure of risk, since assets may vary widely in their risk characteristics.

The second flaw in the current standard is that it does not require capital against off-balance sheet activities. Off-balance sheet activities, such as standby letters of credit, have been an area of rapid growth and some expose banks to credit risk in much the same way as on-balance sheet assets. Yet, by definition, the total assets measure does not include such items.

The third flaw in the existing capital standard is that neither the minimum required capital ratio nor the definition of capital is uniform internationally. The lack of a uniform definition of capital has made it difficult to compare capital levels among different countries and has led to frequent complaints about inequitable competition in international banking markets.

The U.S. Proposal, like the Cooke Committee framework on which it is based, is a modest attempt to mitigate some of the shortcomings of the existing standard. The proposed guidelines make three basic improvements in the capital standard because they:

- recognize differences in the riskiness of assets by discounting capital requirements for some assets that clearly have less credit risk than others;
- recognize the risk inherent in some off-balance sheet activities by requiring that banks hold capital against them; and
- establish a definition of capital and a minimum capital standard that are consistent internationally.

The U.S. Proposal focuses primarily on credit risk, however, a banking organization's capital base must be available to absorb losses stemming from any other kind of risk, such as foreign exchange risk, liquidity or funding risk and interest rate risk. Bank supervisors' assessment of overall capital adequacy takes into account these other risks and involves a qualitative judgment made during an on-site bank examination. The examination involves analysis of the quality and level of earnings, the quality of loans and investments, the effectiveness of loan and investment policies, and management's overall ability to monitor and control risk. Thus, the supervisory judgment of a banking organization's capital adequacy goes far beyond a simple risk-based capital ratio.

Nevertheless, the risk-based ratio provides bankers, as well as examiners, with a useful benchmark or starting point to use in the analysis of capital adequacy. I would like to describe now in greater detail the three areas in which the U.S. Proposal differs from the existing capital standard.

Assets Are Risk Weighted

First, assets are placed into one of five categories, based primarily on perceived credit risk. To calculate a bank's minimum capital requirement, the face value of assets in each category is adjusted to reflect the relative riskiness of that category.

For example, assets in the first category — consisting of cash, reserves at the Federal Reserve, and short-term U.S. Government securities — are viewed as having essentially no credit risk and, therefore, require no capital.

Capital is required against assets in the remaining four categories. Capital would be required against 10, 20, 50, or 100 percent of the asset's face value, depending on the particular category. The implication of this is, for example, that an asset with a risk weight of 10 percent would require only one-tenth the capital support required for an asset weighted 100 percent. The asset risk weights from the U.S. Proposal are presented in Table 1. Several of the asset weights are worth noting.

Broad discretion was given by the Cooke Committee on the appropriate risk weight for claims on the central government. The Committee proposed that such assets be placed into the 0, 10, or 20 percent risk categories. The U.S. Proposal assigns direct and indirect claims on the federal government to the 10 percent category. As an exception to this general rule, we are proposing that direct claims on the U.S. Government and its agencies be placed in the 0 percent category if they have a remaining maturity of 91 days or less. Because they lack the full faith and credit backing of the federal government, direct and indirect claims on U.S. Government-sponsored agencies, such as obligations of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, have been assigned to the 20 percent risk category, although the proposal explicitly seeks comment on the appropriate placement for government-sponsored agency securities.

The Cooke Committee also left domestic supervisors a wide choice on the weighting of domestic, non-central government debt — ranging from 0 to 50 percent. The U.S. proposal distinguishes between general obligation debt, backed by the full faith and credit of the local taxing authority, and public purpose debt which is to be paid purely out of the revenues of the project being financed. General obligations are placed in the 20 percent risk category, while other public purpose debt is in the 50 percent category. Private purpose debt of states, counties, or municipalities — such as industrial development bonds — would be placed in the 100 percent category.

In accordance with the Cooke Committee framework, short- and long-term claims on U.S. depository institutions and short-term claims on foreign banks are assigned a risk weight of 20 percent. Further, assets guaranteed by domestic banks would also be assigned a 20 percent risk weight.

Finally, although loans for owner-occupied residential real estate are assigned a 50 percent risk weight in the Cooke Committee framework, the U.S. agencies have assigned such loans to the 100 percent category. We assign them a 100 percent risk weight because we feel it is consistent with the treatment of other loans. The main forms of collateralized loans that are recognized by the proposal as deserving of special lower risk treatment are those secured by direct or indirect claims on U.S. federal, state, or local governments. Loans without such collateral — even those to "triple A" private borrowers — do not receive lower risk weight treatment. Giving special treatment to real estate loans would be inconsistent with this approach and would add fuel to the criticism that the risk-based capital proposal is an attempt by the banking agencies to engage in credit allocation.

Off-Balance Sheet Activities Are Included

The second change from the existing capital standard is that the risk-based capital ratio takes account of the credit risk exposure that results from off-balance sheet activities. The U.S. banking agencies have followed the Cooke Committee framework in the treatment of off-balance sheet items. Because of the contingent nature of these items, the proposal has taken a two-step approach.

In the first step, the face value of each off-balance sheet instrument would be converted into an amount that permits it to be compared to an on-balance sheet loan in terms of credit risk. We refer to this quantity as the instrument's "credit-risk equivalent" and calculate it by multiplying the nominal principal amount of the off-balance sheet instrument by a so-called credit conversion factor.

For example, a standby letter of credit serving as a financial guarantee exposes a bank to the same amount of credit risk as a loan to the same customer. It would, therefore, be assigned a credit conversion factor of 100 percent. Other off-balance sheet instruments entail less credit risk and, therefore, would be assigned lower conversion factors — some as low as 0 percent.

In the second step, the credit-risk equivalent is placed into one of the five risk categories, based upon the type of instrument, obligor, collateral, or guarantee that is involved. Thus, for example, an off-balance sheet item with a credit conversion factor of 50 percent issued to an obligor who falls into the 50 percent risk category would require capital against 25 percent of the dollar amount of the item. The credit conversion factors proposed by the banking agencies are listed in Table 2.

With regard to interest and exchange rate contracts, the Cooke Committee proposed two options for incorporating the credit risk of these instruments into the risk-based capital ratio. Table 3 shows the method that the U.S. banking agencies are proposing to use.

Capital Is Redefined

The third area of change under the proposed risk-based capital standard involves the redefinition of capital. Table 4 lists the elements of capital as defined in the U.S. Proposal.

Capital instruments are placed in two tiers. Tier 1 would include common equity and minority interests in a bank's consolidated subsidiaries. This definition is more restrictive than the current definition of primary capital in that it excludes perpetual preferred stock and the allowance for loan and lease losses. Tier 2 capital would include, among other items, preferred stock, mandatory convertible securities, subordinated debt, and the allowance for loan and lease losses. Tier 2 capital elements would qualify as part of a bank's total capital base up to a maximum of 100 percent of that bank's Tier 1 capital.

Some of the elements of Tier 2, however, would be subject to additional sub-limits. These include the loan loss reserve, which would be limited to 1.25 percent of risk-weighted assets, and term subordinated debt and intermediate-term limited-life preferred stock, which would be subject to a combined limit of 50 percent of Tier 1 capital. Moreover, these latter instruments would be amortized during the final 5 years of their term to maturity.

Further, some assets would be deducted from capital under the proposed redefinition. These include most intangibles, majority investments in unconsolidated banking or finance subsidiaries, and reciprocal holdings of other banks' capital instruments.

Among intangible assets, purchased mortgage-servicing rights would not be deducted from capital. In addition, goodwill acquired through supervisory mergers of problem or failed banks might not be required to be deducted; this would be decided on a case-by-case basis. While the U.S. Proposal does not explicitly deduct investments in other unconsolidated subsidiaries — such as joint ventures or subsidiaries engaged in businesses other than banking or finance — such investments would be considered on a case-by-case basis, and may be deducted from capital in part or in whole.

Finally, the Cooke Committee framework allows revaluation reserves for unrecognized gains on securities holdings and on bank premises to be included in Tier 2. While in some countries such reserves are widely regarded as components of a bank's net worth, this has traditionally been neither the regulatory nor the accounting practice in the United States. The U.S. banking agencies have, therefore, proposed that such reserves not be included in the regulatory definition of capital.

The Minimum Capital Requirement

In accordance with the international framework established by the Cooke Committee, a 5-year transition period would be provided under the U.S. Proposal. Banks would be required to have risk-based capital ratios of at least 8 percent by yearend 1992. Half of this capital would have to consist of Tier 1 capital. The U.S. supervisory agencies would begin to phase in the new requirements as of December 31, 1990. During the phase-in period, exceptions to the limitations on the use of Tier 2 capital instruments would be allowed. In addition, some elements of capital would be grandfathered during the transition.

The existing capital-to-total assets requirements would remain in effect at least until the end of 1990. By that time,

the U.S. agencies will decide whether to operate the risk-based guidelines in tandem with a minimum capital-to-total assets ratio. Such a minimum ratio, if used, would probably be based on the new definition of capital and be set at an as yet undetermined level.

Remaining Steps in the Process

The following steps remain before the new risk-based capital standard can be put into effect. The U.S. agencies will review the comments they are currently receiving and will determine whether to recommend that changes be made in the Cooke Committee's Proposal. The Cooke Committee will meet, probably in July, to consider whether to make revisions to its proposal. It will publish a final international standard sometime thereafter. The U.S. agencies will then determine whether changes should be made to the U.S. Proposal, either because of revisions made by the Cooke Committee in its international framework, or as a result of comments received on the U.S. Proposal. The U.S. agencies will then publish the final version of the new capital guidelines, possibly by late 1988.

Conclusion

The OCC is pleased that the process of achieving both international and domestic agreement on capital standards has progressed this far. Feedback from interested parties has been an important part of that process, and in fact has led to several changes in the U.S. Proposal in the past. I would like to reiterate that we continue to value input from interested parties, including the Congress.

NOTE: Because of space limitations the tables referred to are not reproduced here. *See Quarterly Journal*, Volume 7, Number 2, p. 53

Statement of Robert L. Clarke, Comptroller of the Currency, before the House Subcommittee on Commerce, Consumer Protection and Competitiveness of the Committee on Energy and Commerce, Washington, D.C., May 12, 1988

Mr. Chairman and members of the Subcommittee, I welcome this opportunity to express my views on the separation of commercial banking and insurance. Put simply, the barriers that separate banking and insurance should be substantially eliminated. Any that remain should apply fairly and equally.

In my testimony this afternoon, I will first share my views on the debate over relaxing restrictions that prevent commercial banks from becoming more active competitors in the market for financial services. Second, I will review some of the evidence that attests to the public benefits that would be gained by permitting banks to become more active competitors in the insurance business. Third, I will trace the history of federal policy regarding banking and insurance and review briefly what competition is now possible under state and federal law. Fourth, I will explain how the provisions of S. 1886 and the St Germain-Wylie Committee Print would (1) threaten the primacy of state law as it applies to the insurance activities of state banks, (2) create substantial inequities among state banks, and (3) put national banks at a substantial competitive disadvantage compared to state banks.

The Debate Over Expanded Competition

I have on numerous occasions expressed the view that Congress should allow banking organizations to become more active participants in the ever-changing financial services industry. I firmly believe that the focus of discussions should not be on a few new activities or powers but on the ability of banks to compete with other financial services providers, while ensuring the protection of depositors and the financial system. Instead of an endless debate about this product or that service, I have urged that attention be directed at designing the appropriate legal and operational structure that will allow banks to become active competitors in financial markets, while still supporting other goals of public policy.

In the past year, there have been several thoughtful analyses of expanded competition in financial markets, including *Mandate for Change*, prepared by the FDIC, and a report published last September by the House Committee on Government Operations. Each has contributed to the growing acceptance of corporate separateness as the keystone to a new, stable, and vigorously competitive financial system. But as that acceptance grows, questions on how to treat particular products and services invariably arise. Therefore, I will now turn to the issue that you asked me to address—commercial banks engaging in insurance activities.

Consumer Benefits of Combining Banking and Insurance

Banks are prevented from actively competing in insurance markets, despite the absence of evidence that such competition would harm consumers. In fact, large segments of the American public believe that bank entry into insurance markets now closed to banks would yield substantial benefits.

Late last February, a coalition of 24 consumer groups asked the Senate Banking Committee, unsuccessfully, not to limit the insurance activities of state-bank subsidiaries of bank holding companies. A year before that, the Consumer Federation of America noted in a study that, "Surveys of the policyowner cost for life insurance have repeatedly shown that savings bank life insurance is lower in cost [than life insurance sold by insurance companies] in those states where it is allowed to be sold." In summarizing a portion of its own study, the Federation concluded that, "The econometric study of life insurance costs not only corroborates these findings, but also indicates that competition from banks could lower costs industry-wide."

The study was a balanced one and tried to assess many of the arguments offered by insurance-industry representatives who oppose bank entry into insurance markets. Thus, it concluded, conservatively:

> The potential benefits are large enough for policymakers to work very hard at striking the proper balance. There is no reason to prohibit states from carefully expanding bank sale of insurance or for federal authorities to dismiss bank sale of insurance out of hand.

In the face of such findings, insurance industry representatives have argued that combining banking and insurance would harm consumers. They allege that banks might force consumers into accepting unwanted products through tie-in arrangements.

That argument is not persuasive. First of all, we have seen no evidence of tie-in arrangements in those states that allow banks to sell insurance. Additionally, existing law amply protects consumers. For many years, the Sherman Act has, in general terms, prohibited the use in commerce of anticompetitive tie-ins. The application of that principle to banks was underscored by the 1970 amendments to the Bank Holding Company Act, 12 U.S.C. 1972-1975. With certain exceptions to protect bank safety and soundness, a "bank shall not in any manner extend credit. . . or furnish any service . . . on the condition . . . that the customer shall obtain some additional credit, property or service from such bank, a bank holding company of such bank, or from any other subsidiary of such bank holding company."

Additional changes in the laws governing tie-ins are not necessary. In addition to the laws protecting against tie-ins, competition works to ensure that consumers face a vast array of providers of financial services, including non-affiliated insurance firms. The availability of a large number of sellers of insurance products will prevent consumers from facing the "take-it-or-leave-it" scenario that insurance industry representatives would have us believe.

That is not just a theoretical finding. A study prepared for the OCC in 1984 by an outside consultant observed that:

> Interviews with agents in Minnesota and Indiana, where banks have been active in the agency business for many years and are a key factor in the distribution of insurance products, produced no complaints about "tie-ins" sales of insurance or coercion.

In a 1985 article, a researcher at the Federal Reserve Bank of Boston reported:

> . . .a study done for the American Insurance Association reported that, 'deposit-taking institutions generally do not dominate their markets to such an extent that substantial market power could be used to force their way into the [insurance] market by compelling the purchase of an insurance product by their depositors.'

Some assert that combining banking and insurance raises the prospect of giant financial conglomerates collectively or individually controlling access to all insurance markets. That expression of concern ignores the fact that acquisitions and attempts at collusion are subject to the antitrust laws, such as the Sherman Act and the Clayton Act.

Such protections are real. They are being used by a number of state attorneys general who have alleged that several insurance companies have colluded to restrain competition and manipulate the cost of commercial and general liability insurance. Bank entry into insurance markets would increase competition and work to minimize whatever illegal collusive practices may exist.

Concern has also been expressed that banks could engage in unfair competitive practices to drive their nonbank competitors from the marketplace. Opponents of bank entry into insurance markets suggest that banks would give favored treatment on loans to the customers of their insurance affiliates.

Here, too, there is no evidence of that happening where banks are permitted to sell insurance. There are also protections against such practices. Loans to customers of affiliates are covered by the long-standing statutory limits on the amount of credit banks may extend to a single borrower, such as those applicable to national banks found in 12 U.S.C. 84. Additionally, section 23B of the Federal Reserve Act, enacted last year, prohibits a bank from offering credit on preferential terms to third parties in connection with transactions involving an affiliate. Bank loans to insiders for insurance and other purchases are tightly governed by 12 U.S.C. 375a and 375b. Moreover, loans

made to third parties for the benefit of an affiliate are to be added to other loans to that affiliate when assessing compliance with section 23A of the Federal Reserve Act. Thus, the more a bank lends to the customers of an affiliate, for the benefit of that affiliate, the less it can lend directly to that affiliate. Generally, such loans cannot be on terms more favorable than those accorded other borrowers.

Federal Policy on Combining Banking and Insurance

Federal policy on the combination of banking and insurance draws a distinction between state-chartered banks and national banks. Currently, there is no federal law that restricts the insurance activities of state banks. State law prevails, and many states have granted their banks considerable insurance authority. According to a 1987 FDIC study of state-bank powers, state banks in nearly one-half of the states may engage in some insurance activities. Five states allow insurance underwriting by banks, and four of those five also permit banks to act as agents. Ten states allow banks to act as insurance agents in any community, while an additional nine permit agency activity in towns of 5,000 persons or fewer.

Federal law governs the insurance activity of national banks. The groundwork for federal policy toward national banks exercising insurance powers dates back to 1863, the year in which the national banking system was established and the year in which the Office of the Comptroller of the Currency (OCC) was created to supervise that system. The original law permitted national banks, under the so-called incidental powers clause (12 U.S.C. 24(7)), to exercise ". . . all such incidental powers as shall be necessary to carry on the business of banking . . . ." No prohibition on offering insurance products was contained in that statute. Nevertheless, for many of the early years of the national banking system, Comptrollers of the Currency interpreted the law as precluding national banks from offering any kind of insurance services. We have a somewhat more flexible policy today.

The first change in federal policy toward national-bank involvement in the sale of insurance products occurred in 1916. At that time, many national banks were having difficulty competing with state-chartered banks and trust companies. Consequently, at the request of the Comptroller of the Currency, Congress enacted legislation permitting national banks serving communities of no more than 5,000 people to act as agent in the sale of any kind of insurance.

However, we do not believe that national banks are, by implication, prohibited from offering insurance services in larger communities. The test we use is whether an insurance activity is "incidental to the business of banking." Pursuant to the incidental powers clause, the OCC has ruled that national banks may offer credit-related insurance services. These services include credit life, health and accident insurance, credit-related unemployment insurance, vendor's single interest and double interest insurance, credit-related title insurance, and municipal bond insurance. The OCC has also permitted national banks to form business relationships with independent insurance agents.

Federal policy toward bank holding companies was, until very recently, virtually silent on the matter of the relationship between banking and insurance. Prior to 1970, there was no hint from Congress that affiliations between banking and insurance firms should be prohibited. That year produced the well-known amendments to the Bank Holding Company Act, which required the Federal Reserve Board to ensure that bank holding company subsidiaries be engaged in activities closely related to banking. The Board has ruled that a number of insurance activities meet that test.

Unfortunately, the competitive environment with respect to insurance was forced to change dramatically in 1982 with the passage of the Garn-St Germain Act. That legislation generally prohibited bank holding companies from offering most insurance products. Since enactment of the Garn-St Germain Act, questions have arisen as to whether its insurance prohibitions apply to both the bank and nonbank subsidiaries of bank holding companies. The Federal Reserve Board eventually ruled that the prohibition did not affect the insurance activities of banks. That decision is now before the courts.

While federal legislation has increasingly restricted bank entry into the insurance business, it has not sought to push insurance companies out of the banking business. Insurance companies are active in the consumer-loan market though policy loans, the ownership of nonbank banks and thrifts, and, in some cases, through sponsorship of consumer credit cards. They offer shares in mutual funds in competition with the money-market accounts of commercial banks, and their marketing of single-premium annuity contracts offers a practical substitute for commercial-bank certificates of deposit. They compete with banks in the provision of loans to industry. Their opportunities to make further inroads into banking were recently enhanced when the Federal Home Loan Bank Board expanded its policy of selling troubled thrifts to insurance companies.

Emerging Federal Policy Misdirected

Given the clear public benefits of granting all banks the authority to offer insurance products, we need a new federal policy on combining banking and insurance. If we could approach the issue with a clean slate, I would urge that federal law affirmatively authorize national banks

to offer a full range of insurance products. State law would continue to govern the insurance activities of state banks.

A Clean-Slate Approach

In particular, I favor granting banks unlimited authority to act as insurance agents or brokers. They should be permitted to do so from a bank department and not be forced to conduct those activities in a subsidiary or other affiliate. Such activities pose little, if any, risk to the bank, because agents and brokers have little, if any, of their own capital at risk. Banks in some states have been selling insurance successfully for decades and have experienced no safety and soundness problems that would make it advisable to place that activity in a separate subsidiary or affiliate.

Insurance underwriting, however, involves greater risks. For that reason, the risks associated with bank participation in insurance underwriting should be considered differently. For example, such activities should be placed in an insulated subsidiary or other affiliate of the bank. The bank would be protected by limitations on transactions it could undertake with its insurance affiliate as found in sections 23A and 23B of the Federal Reserve Act. The subsidiary should be made fully subject to all the restrictions on bank-affiliate transactions and product tie-ins found in the banking and other laws. Those restrictions are found primarily in sections 23A and 23B of the Federal Reserve Act and in certain sections of the Bank Holding Company Act.

Additional insulation would be provided by bank capital adequacy considerations. In particular, determinations of bank capital adequacy would ignore the investment of the bank in the subsidiary. The practical effect of that policy would be to ensure that any problems that the insurance affiliate might encounter would not affect the bank's capital.

My proposal would not alter the primacy of states in regulating or supervising insurance activities. New agency activities by national banks would be treated in the same manner as are those that are currently permitted. New underwriting activities would take place in separately incorporated affiliates of banks and would be subject to the same rules, regulations, and supervisory authorities that apply to unaffiliated insurance firms.

The Need To Revise Current Proposals

Unfortunately, we may not be able to approach the issue of banking and insurance with a clean slate. S. 1886 has passed the Senate and the St Germain-Wylie proposal is being reviewed in the House. Both represent a step away from, not toward, greater competition in the markets for insurance products.

The approach taken by S. 1886, which the St Germain-Wylie proposal seems to be using as a model, is the wrong one. It would impose restrictions on insurance activities that are currently permitted for banks—activities that are known to pose no significant risks to banks. Further, it would create inequitable regulatory treatment among state banks, depending upon their ownership, and between state banks and national banks that compete in the same markets.

First, under S. 1886, state-authorized new insurance activities by any state bank owned by a bank holding company would have to stop at the borders of the state in which it operates. Currently, state banks may offer insurance products beyond the borders of their home state if the laws of that state so permit.

Second, S. 1886 would, with two limited exceptions, restrict national bank insurance authority to the sale and underwriting of credit life, credit disability, and involuntary unemployment insurance on loans. Thus, a number of insurance activities that the OCC has determined to be permissible for national banks because they are incidental to the business of banking would be prohibited — acting as agent for the sale of title insurance, for example. The authority to determine which activities are incidental to the business of banking has been available to the OCC since 1863; it has been used in the public interest to authorize a number of banking activities. Limiting that authority in the insurance area would set an undesirable precedent.

Third, S. 1886 would discriminate among state-chartered banks on the basis of their ownership. It would allow state banks owned by individuals or by a bank holding company headquartered in the same state to offer insurance products authorized under state law. It would prohibit state banks that are affiliated with a holding company headquartered out of state from offering the same insurance products.

How the approach embodied in the Senate bill would achieve any appropriate public-policy goal escapes me. Surely, it does not make sense, as a matter of federal policy, to create statutorily mandated competitive disadvantages between national and state banks—a disparity that could reduce the value of a national bank charter.

Conclusion

Mr. Chairman and members of this Subcommittee, the debate over insurance powers for banking organizations is in reality a power struggle between the insurance industry and the public interest. Each of those contending parties knows that bank entry into insurance markets now closed to them promises lower-cost insurance products. Commercial banking organizations with their brick-and-

mortar office networks can be more efficient providers of insurance services than many insurance firms.

Commercial banking organizations and their supervisors know that continued refusal to allow banks new insurance powers, let alone retrenchment, cannot be defended on the grounds of bank safety and soundness. Many insurance activities are virtually riskless. Commercial banks can be effectively insulated from those that are not.

Finally, prohibiting banks from offering new insurance products cannot be defended on the grounds of possible public harm. There is no evidence to support a charge that harm has resulted from the exercise of insurance powers now available to banks. As we have seen, federal statutes, and the more powerful discipline of the marketplace, all but preclude it. Expanding bank insurance activities will not diminish the strength of either protection.

Clearly, a new federal policy expanding the insurance powers of national banks is needed. Unfortunately S 1886 would restrict insurance activities of national banks, pre-empt state law, and do little to serve the public interest.

If the Congress chooses to base the framework for expanding the insurance products and services offered by banks on state laws, then, at a minimum, national banks should be authorized to conduct whatever insurance activities their state-bank competitors are allowed to conduct. Of equal importance, neither group of banks should be subjected to new restrictions on their ability to conduct insurance activities.

Congress must choose between the public interest and a narrow private interest. It is my hope that it selects the former.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the International Financial Conference, Paris, France, May 17, 1988

Some of you may remember Vernon Duke, the composer who won fame in the 1930s, 40s and 50s for his popular songs, particularly "April in Paris."

Inspired by Duke's song, a friend of the composer's decided to spend a few weeks in Paris one April. The weather was appalling. On his return to the U.S., the traveler complained at some length about his disappointing trip. Asked Duke: "Whatever made you go to Paris in April? The weather is always terrible then." His friend looked at him in astonishment and replied: "I went because of your song." "Ah, well," explained the composer apologetically, "we really meant May — Paris is wonderful in May — but the rhythm of the song required two syllables."

Paris is wonderful in May, but, the weather notwithstanding, I've found it wonderful any time I've been here. But I'm not here to talk about the weather. Nor about Paris, however delightful it may be.

I'm here to discuss the U.S. perspective on how banking authorities are trying to catch up with the collapse of national borders in the global financial marketplace.

As all of you know, bank supervisors in the United States are strongly supportive of harmonizing our system of banking regulation with regulation governing the other world financial centers. We U.S. bank supervisors view regulatory harmony in the interdependent global financial marketplace as not only important, but necessary, necessary for prudential oversight and necessary for competitive equality.

Given the EEC's progress toward creating a common banking system within the Community by 1992, with institutions structured along the lines of the "universal bank" model and a common supervisory framework among the Community's members, the need to achieve competitive equality becomes greater with every passing day.

As you well know, to date our major effort in regard to regulatory harmony has centered on formulating risk-based capital standards that would parallel standards to be placed in effect throughout the world's other financial centers.

This morning I want to focus my discussion on this effort. In doing so I want to provide some perspective on how we believe this effort is necessary both for prudential oversight domestically and for competitive equality internationally. But I also want to underscore one very important point: Vernon Duke may have taken liberties to achieve rhythm, but the U.S. will not venture to trade off the competitive equality we seek merely for the sake of harmony.

Competitive equality and harmony are not separate goals in our effort. They are concurrent goals. Both must be achieved.

Why are regulatory authorities in the business of setting capital standards of any type for banks in the first place?

Why can't the market do it alone? One would have expected these questions to have been answered sufficiently long ago. And they were. But some of the critics of the risk-based capital concept have raised them again, so it is with them that I must begin.

Capital, like anything else in life, can be viewed in several ways. How you view it depends on what your expectations are. And people's expectations differ with how they view their interests.

Many years ago, the famous illustrator Maxfield Parrish suffered from a problem artists find cropping up every now and then. For a while, he found it very difficult to get down to work. Parrish, you may remember, specialized in painting voluptuous nudes. One morning, a young model showed up at his studio to pose.

"I don't feel like working right now," Parrish said as he let her into the studio, "Let's have a cup of coffee first." No sooner had they sat down than the studio buzzer rang. Parrish answered it and quickly slapped his hand over the transmitter. "Young lady," he cried, "for God's sake, take your clothes off — my wife is coming up to check on me."

Bankers look at capital in one way, bank supervisors in another, for the simple reason that we bring partially different expectations to it. In addition, stockholders and subordinated debt holders each view capital from different perspectives. And an uninsured depositor looks at capital very carefully, while it is the rare insured depositor who looks at it at all.

Which one of these groups is the market?

It is clear that all, except the insured depositor, see capital as a fund against which to charge off temporary and unexpected losses: a cushion as it is so often described.

In addition, bank management and stockholders view capital as a source of funds to finance other types of assets and acquisitions. The need for this type of capital is less evident to a depositor or subordinated debt holder.

Getting back to the cushion, tastes vary. Insured depositors don't need one. Speculative management and investors would like just a thin little cushion to place on a hard chair. Others may prefer a softer environment. Uninsured depositors, if they really believe they are uninsured, would like lots of foam rubber. And subordinated debt holders would like even more.

The supervisor has yet different needs. One of those needs is to assure that a capital cushion is provided for the deposit insurer. But the supervisor must also focus on the financial system as a whole, and in particular on maintaining the public's confidence in a safe banking system.

Speculative management may be willing to "bet the bank." Supervisors cannot and will not "bet the system." Because their goals differ, the banker might view the bank as "safe" with less capital than a regulator would view it as "safe." Supervisors, therefore, have a compelling interest in continuing to demand capital standards. They are a means, thought not the sole means, of providing stability to the banking system.

But that doesn't mean that the supervisor can simply pile up the cushions. Have you ever compared the effort and time required to get up from a deep, soft sofa with that required to rise from a finely crafted, comfortably upholstered chair? Too much of a capital cushion would result in high priced, unresponsive, financial services and a very uncompetitive banking system. Thus, supervisors have a very real need to set capital standards and an equally high responsibility to set appropriate standards.

Assuming that regulators will continue to set capital standards — not an unreasonable assumptioin — we get back to the issue of what is an acceptable degree of accuracy.

Our current capital standard, which bases a bank's required capital on the volume of its assets, has several flaws, two of which touch on this issue.

One: It fails to differentiate between high risk and low risk assets. For example, cash, Treasury obligations and loans to unrated commercial borrowers require identical capital. This problem results from the fact that both the primary and total capital ratios use the volume of total assets as a proxy for the amount of risk a bank faces. The current standard has the advantage of consistency and uniformity, but it may also be consistently and uniformly inappropriate. Since assets may vary widely in their risk characteristics, this is obviously a very crude measure of risk.

Two: Our current capital standard does not require capital against off-balance sheet activities, activities that have grown rapidly and have exposed banks to risk in much the same way as on-balance sheet assets do. Sometimes these risks are greater than those for which capital is required under our current regulation.

Without going into detail about our risk-based capital proposal, I would just stress that it mitigates the shortcomings I've discussed. It does so by recognizing differences in the riskiness of assets by discounting capital requirements for assets that have less risk. And it does so by recognizing the risk inherent in some off-balance sheet activities by requiring that banks hold capital against them.

Now I won't argue that risk-based capital standards will measure and weigh risks perfectly. No one else will argue that, either. Standards that sensitive are practically impossible to devise. But we aren't judging a risk-based approach against perfection. We're judging it against our current approach. Compared to what we have now, it is a vast improvement.

The risk-based approach isn't Savile Row tailoring. But it is an advance over our current one-size-fits-all.

In addition to these prudential concerns on the part of bank supervisors, the risk-based approach also deals with another shortcoming in our current capital standard. Because neither the minimum required capital ratio nor the definition of capital is uniform internationally, bankers frequently have complained to us about unequal competition in international banking markets. When we began to seriously look at a risk-based approach several years ago, prudential concerns were foremost in our minds.

When the three U.S. banking agencies first issued a risk-based capital proposal for public comment in 1986, however, many respondents argued that, without similar requirements for foreign competitors, the proposed requirements would put U.S. banks at a competitive disadvantage.

In light of those concerns, we began working with the Bank of England on the development of a common approach. As a result, a joint U.S./U.K. Risk-Based Capital Proposal was published in January 1987.

The scope for international convergence expanded once again when the Cooke Committee took the joint proposal under consideration and addressed the possibility of expanding the agreement to include all of the countries represented on the Committee.

As a result of the Cooke Committee's efforts, an international framework, on which the current U.S. proposal is based, was published in December of 1987. Thus, the current proposal is the culmination of several years of work to develop consistent international capital standards.

Where does it go from here? As you know, the comment period on the U.S. proposal closed on May 13. The U.S. agencies will review the comments they receive and will determine whether to recommend that changes be made in the Cooke Committee's Proposal. Other constituent countries are also reviewing the proposal. The Cooke Committee is scheduled to meet at the end of June to consider whether to make revisions to its proposal. It will publish a final international standard sometime thereafter.

The U.S. agencies will then determine whether changes should be made to the U.S. proposal, either because of revisions made by the Cooke Committee in its international framework or as a result of comments received on the U.S. proposal. The U.S. agencies will then publish the final version of the new capital guidelines, possibly by late 1988.

I cannot overstate the importance of the Cooke Committee framework on risk-based capital as a first step in bringing harmony to banking regulation globally. Of all of the issues regulatory harmony encompasses, risk-based capital is, perhaps, the most difficult technically. That the supervisory authorities of the major financial centers could have come this far, this fast, in reaching agreement on such a complex issue is itself evidence of how great we all consider the need for concord on supervisory standards.

Our efforts to reach consensus on risk-based capital standards are nothing short of historic. This is the first time the banking authorities of the industrialized countries have come together to try to agree formally on an issue central to bank supervision.

But I think we all must recognize that, while common supervisory standards would go a long way in creating international competitive equality, as far as U.S. institutions are concerned such supervisory standards alone leave much to be desired.

International capital standards must be followed, or better yet, accompanied by another step, a step that we in the United States must take on our own to make American institutions truly competitive.

That brings us back to where I began this morning — the EEC's push to create a common banking market, for 321 million people, based on a "universal banking" model. According to the plan, in 1992 a bank in the EEC will be entitled to engage throughout the Community in all forms of securities transactions, including participation in underwriting corporate equity and debt issues, trading for its own account or the account of customers in all forms of equity and short- and long-term debt, and portfolio management and advice.

I cannot but strongly believe that Europe will soon reap the benefits of this decision. Financial services will become cheaper, more efficient and more innovative. Europe, on the whole, will become an even stronger competitor in the international marketplace.

European banks are looking forward to the opportunities and challenges 1992 holds, and so are U.S. banks. I am pleased that the Community is extending "national treatment" to at least the subsidiaries of U.S. branches as well. This means, for example, U.S. banks in Britain would be able to branch throughout the Community and provide

the services that any other bank would be allowed to offer under unified European rules.

In short, the EEC has made the decision to allow U.S. banks to offer banking and securities services together to Europeans.

Why are we in the U.S. still debating a decision to allow U.S. banks to offer securities services at home, a debate with no resolution in sight?

Ten years ago, in several European countries you would have found the most regimented, most segmented, most controlled financial systems you could imagine. Today, the European Community has one of the most open banking markets in the world, with even greater liberalization scheduled on the calender.

Meanwhile, the United States maintains the most regimented, most segmented, most controlled financial system you will find among industrialized countries.

What explains this divergence? The Europeans are looking to the future and are preparing for it, while we seem unable to do anything but to look to the past and endeavor to perpetuate it.

The German Catholic prelate Cardinal von Faulhaber of Munich once had a conversation with Albert Einstein. "Cardinal von Faulhaber," Einstein remarked, "I respect religion, but I believe in mathematics. Probably it is the other way around with you." "You are mistaken," the Cardinal replied. "To me, both are merely different expressions of the same divine exactness." "But your Eminence," said Einstein, "what would you say if mathematical science should someday come to conclusions directly contradictory to religious beliefs?" "Oh," answered the Cardinal, "I have the highest respect for the competence of mathematicians. I am sure they would never rest until they discovered their mistake."

Similarly, I have great respect for the lawmakers in Washington who hold the future of the U.S. banking system in their hands. I am confident they will eventually discover the error of their ways and will restructure the legal framework for banking within the U.S. in a way that will bring it into parity with the rest of the industrialized world.

Statement of Robert L. Clarke, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., May 25, 1988

Mr. Chairman and members of the Committee, I am here today at your invitation to discuss the current condition of the national banking system. I am pleased to have the opportunity to do that.

Overall, the national banking system remains sound. Last year, many banks achieved significant improvements in profitability and asset quality, especially in the Midwest, where banks shared in the recovery of the agricultural economy. National banks in the Northeast and Southeast outperformed banks in other regions in 1987, benefitting from continued economic growth along the eastern seaboard.

Because the performance of banks reflects the fortunes of their borrowers, there are areas of concern. Certain banks, particularly some very large ones, experienced major losses last year because they made loan-loss provisions with respect to their loans to developing countries. Bank earnings were also depressed in sections of the country with distressed local economies, such as the Southwest, where an oversupply of real estate has impaired the performance of national bank real estate loan portfolios.

In my testimony today, I will begin by reviewing data regarding the current financial condition of national banks. I will examine their earnings, profitability, sources of revenue, asset quality, and capital. I will then address three supervisory matters that are of particular importance: our proposal to revise the guidelines for assessing capital adequacy, initiatives regarding loans to troubled, less-developed countries (LDCs), and the way we handle failing banks, and conclude by responding to several specific questions raised in your letter of invitation.

The Financial Condition of National Banks

The majority of national banks experienced a slight improvement in performance last year. Their profitability stabilized after years of steady erosion; most measures of asset quality improved; and capital ratios increased. Some national banks, however, fared poorly in 1987. Many in the Southwest and the large multinational banks incurred substantial losses. Overall, more than one national bank in five was unprofitable.

Earnings

Last year, national banks earned approximately $329 million, down from nearly $9.5 billion in 1986. Industry earnings were depressed by sizable provisions for loan losses

made by large national banks, particularly with respect to the indebtedness of several LDCs. The 29 national banks with assets greater than $10 billion made provisions for loan losses of $16 billion in 1987 — up from $6 billion in 1986. As a group, those banks lost nearly $5 billion in 1987, compared to profits of nearly $4 billion in 1986. Smaller national banks earned nearly $5.1 billion in 1987, compared to $5.7 billion in 1986.

Although those 29 banks make up fewer than 1 percent of all national banks, they hold over 45 percent of national bank assets. Therefore, their losses last year had a profound effect on the aggregate earnings of national banks. Earnings at those 29 national banks fell $8.5 billion between 1986 and 1987, accounting for more than 90 percent of the decline in the net income of national banks as a group.

Table 1

Net Income
(Dollars in millions)
(National banks by asset size)

Year	Under $300M	$300M-$1B	$1B-$10B	Over $10B	All Banks
1978	$1,851.1	$ 715.7	$1,661.0	$ 1,929.3	$6,157.2
1979	2,079.6	777.7	2,050.7	2,333.0	7,241.0
1980	2,190.3	859.2	2,082.9	2,527.4	7,659.8
1981	2,224.7	895.1	2,230.2	2,831.8	8,181.8
1982	2,208.5	805.0	2,339.4	2,841.0	8,194.0
1983	2,170.6	893.8	2,533.2	2,433.2	8,030.8
1984	2,015.7	1,061.2	3,811.7	1,383.1	8,271.7
1985	1,783.6	925.4	4,428.3	2,672.0	9,809.3
1986	1,312.4	824.1	3,603.1	3,728.1	9,467.8
1987	1,506.3	828.1	2,730.4	−4,735.7	329.1

Source: Call Reports

Return on Assets

With earnings of $329 million on assets of $1.8 trillion, the average return on assets (ROA) for the national banking system was a mere 0.02 percent in 1987, its lowest level in more than 50 years. Fortunately, that is not the whole picture. The aggregate results for 1987 were greatly influenced by the losses incurred by the largest banks and are not representative of the majority of smaller institutions. For the vast majority of national banks, earnings stabilized in 1987, following 5 years of significant decline. Half of all national banks earned at least 0.79 percent on their assets. This median ROA was well below its most recent peak of 1.11 percent in 1980, but was two basis points above its 1986 level.

Although declining profitability has been a persistent phenomenon during the 1980s, an equally important trend has been an increasing divergence in profitability among national banks. The ROA of banks below the median level has fallen much more sharply than the ROA of banks above the median level. As a result, the disparity between the profitability of the banks with the strongest returns and those with the weakest has widened substantially. In 1987, for the first time in 6 years, the disparity in profitability narrowed, but it still was substantially greater than it was a decade ago.

Table 2

Return on Assets
(All national banks)

Year	Median	Mean
1978	1.01%	0.73%
1979	1.09	0.77
1980	1.11	0.73
1981	1.08	0.71
1982	1.04	0.66
1983	0.96	0.60
1984	0.92	0.57
1985	0.88	0.63
1986	0.77	0.57
1987	0.79	0.02

Source: Call Reports

Table 3

Distribution of Return on Assets
(All national banks)

Year	5th Percentile	Median	95th Percentile
1978	0.18%	1.01%	1.70%
1979	0.28	1.09	1.87
1980	0.11	1.11	2.02
1981	−0.05	1.08	2.20
1982	−0.91	1.04	2.10
1983	−1.30	0.96	1.96
1984	−2.01	0.92	1.82
1985	−2.87	0.88	1.82
1986	−3.31	0.77	1.75
1987	−2.96	0.79	1.69

Source: Call Reports

This trend is consistent with several other observations. More banks are unprofitable, and the number of problem national banks has increased as has the number of bank failures. It also points out that, while banking as a whole is less profitable than it was earlier in this decade, the fall in profitability has been most pronounced among the poorest performers.

Some of this divergence in bank profitability can be attributed to regional economic differences. The most serious earnings problems for the past 2 years have been in the OCC's Southwestern District, which comprises Texas, Oklahoma, Louisiana, Arkansas, and New Mexico

Earlier in this decade, national banks in the Southwest substantially outperformed national banks in the rest of the country. In Texas, median ROA began to decline after 1981 as oil prices weakened and the pace of economic growth slowed but it still exceeded the median ROA of national banks in other parts of the country. After 1983, the median ROA for national banks in Texas fell sharply below the median for all other national banks. In 1987, 47 percent of national banks in Texas lost money, and the median ROA was only about 0.06 percent, less than one-tenth the median for all national banks.

Table 4

Median ROA by District
(All national banks)

District	*1986*	*1987*
Northeastern	1.11	1.08
Southeastern	1.08	1.03
Central	0.96	0.94
Midwestern	0.71	0.81
Southwestern	0.28	0.28
Western	0.39	0.51
All banks	0.77	0.79

Source Call Reports

Weak regional economies are always a source of concern, but history suggests bank earnings typically improve as local economies rebound. That appears to be the case in the Midwest where profitability increased substantially last year; the median ROA in the Midwestern District rose from 0.71 percent to 0.81 percent.

Sources of Revenue

Interest revenue continues to be the largest source of revenue for national banks. Net interest revenue, defined as interest income less interest expense, was $58.9 billion in 1987, up from $55.8 billion in 1986.

Table 5

Net Interest Revenue and Noninterest Revenue
(Dollars in millions)
(All national banks)

Year	*Net Interest Revenue*	*Noninterest Revenue*
1978	$25 615 4	$ 5,928.1
1979	28,769 0	6,983.0
1980	31 344 4	9,025 1
1981	34 199 8	11,029 5
1982	39 081 3	12,707 8
1983	42 063 6	14 611 9
1984	47 407 4	17,197 1
1985	53 596 7	20,658 1
1986	55 828 1	24,917 4
1987	58 928 7	26 458 5

Source Call Reports

Banks have supplemented their interest revenue through securities trading and by offering services that generate fee income. In 1987, noninterest revenue (which includes income from fiduciary activities, fees for a variety of services, income from trading account activities, and gains and losses from securities and foreign exchange transactions) amounted to $26.5 billion, compared to $24.9 billion in 1986.

Two trends are evident in the data. First, the percentage of banking revenue coming from noninterest sources is increasing. Second, noninterest revenue represents a larger contribution to banking income at larger banks than at smaller banks. The growth in noninterest revenue is a healthy development, indicating product diversification and decreased dependence on a single source of income.

Table 6

*Noninterest Revenue as a Percent of Principal Revenue**
(All national banks)

Year	*Under $300M*	*$300M-$1B*	*$1B-$10B*	*Over $10B*	*All Banks*
1978	12.60%	17.64%	21.57%	21.58%	18.79%
1979	13.18	18.16	22.34	22.13	19.53
1980	13.70	18.79	24.87	27.05	22.36
1981	14.38	19.61	26.73	29.83	24 39
1982	14.38	20.36	27.07	29.26	24.54
1983	15.34	21.42	29.00	29.77	25.78
1984	16.44	23.33	29.26	30.18	26.62
1985	17.78	24.04	29.75	31.55	27.82
1986	20.31	25.53	31.21	35.59	30.86
1987	18.87	24.61	28.76	37.77	30.99

*Principal Revenue = Noninterest + Net Interest Revenue
Source: Call Reports

Asset Quality

Despite a protracted period of economic growth, national banks have been beset by deteriorating credit quality for the past 5 years. Earlier in this decade, banks serving agricultural communities suffered substantial losses. Banks with loans to the oil and gas industry experienced similar problems, following the decline in worldwide oil prices and the contraction of the domestic energy industry. In 1987, conditions in both the agricultural and energy sectors had begun to stabilize, and credit quality at most national banks improved.

There were some exceptions to that most recent development. The two most prominent were large banks with exposure to developing countries and banks in the Southwest, especially those that had engaged actively in commercial real estate lending earlier in this decade.

Table 7

Net Loan Losses as a Percent of Total Loans
(All national banks)

Year	*Median*	*Mean*
1978	0.17%	0.31%
1979	0.19	0.29
1980	0.25	0.38
1981	0.26	0.35
1982	0.36	0.59
1983	0.35	0.71
1984	0.38	0.86
1985	0.57	0.89
1986	0.74	1.01
1987	0.56	0.99

Source: Call Reports

Troubled LDC loans. At national banks with more than $10 billion in assets, nonperforming assets as a percent of all assets increased by 50 percent last year. They rose from 2.40 percent in 1986 to 3.59 percent in 1987, with the increase largely attributable to the banks' LDC loans.

Foreign claims of all U.S. banks peaked at $359 billion in December 1983. They increased rapidly for several years prior to the onset of the debt crisis in the fall of 1982 and grew more slowly thereafter. From the peak, total foreign lending declined steadily to $291 billion at the end of 1987. As a percent of capital, total foreign exposure fell from 499 percent in December 1982, to 225 percent of capital in December 1987. That is the result of a $61 billion decrease in total lending and a $58 billion increase in capital. Those developments are illustrated in three charts that are appended to this statement.

The problems large national banks are having with some of their LDC loans have been a long time in the making. Beginning about 1980, the worldwide recession, higher interest rates, and lower agricultural and raw materials prices impaired the ability of Third-World debtors to meet their obligations. Eventually, banks rescheduled the debt and made the interest rate concessions, but the problems of some of the countries represented in the LDC loan portfolios of national banks continued.

Exposures of national banks to Brazil, Mexico, and Argentina are of special concern because of their size. In 1987, Brazil announced the suspension of interest payments on intermediate- and long-term, public- and private-sector foreign loan obligations to banks. Nonperforming loans rose sharply, and many large banks increased their provision for loan losses. Brazil's suspension of interest payments hampered its ability to raise new funds. At the end of 1987, a preliminary agreement between Brazil and its principal lenders was reached to provide for payment of interest for the months of January and February 1988. Negotiations toward reaching an agreement whereby all principal and interest will be brought current through mid-1988 are currently in a final stage.

Since 1986, economic conditions in Mexico have improved. A restored trade surplus has resulted in an increase in international reserves to $14 billion. Mexico has also engaged, with some of its creditor banks, in a debt-reduction program.

Argentina has relied in the last 2 years on loans from the International Monetary Fund (IMF) and the U.S. government, as well as private creditors who are willing to reschedule. However, Argentina's economy remains weak, but like Brazil, Argentina instituted in late 1987 government-sanctioned actions that enable foreign lenders to convert debt paper into equity investments.

Southwestern banks. For national banks in the Southwestern District, current problems also stem from lending decisions made some time in the past. As the outlook for the oil and gas industry began to dim in 1982-83, undermining the quality of oil and gas loans, many banks shifted their lending emphasis. Booming demand to finance construction and land development in Texas led local lenders, including commercial banks, to expand their real estate loan portfolios.

In retrospect, it is clear that the level of construction in Texas during that period was excessive, given the slowdown that was already underway in oil and gas activity; the level of construction depended on a pace of Texas economic activity that could not be sustained. Ultimately, after the collapse of oil prices in 1986, construction activity in Texas did contract sharply, but by then it was too late to forestall damage to the financial institutions that had financed new development earlier in the 1980s.

By last year, banks and other financial institutions in Texas were beset by mounting problems in their real estate loan portfolios. Nonaccrual real estate loans totalled $3.8 billion, up 400 percent from 1985. They accounted for 56 percent of total nonaccrual loans at Texas banks in 1987, twice the level of just 2 years earlier.

Table 8

Nonaccrual Real Estate Loans
(All national banks in Texas)

	Real Estate Nonaccrual Loans	*Real Estate Nonaccrual Loans To Total Nonaccrual Loans*	
Year	*(millions of dollars)*	*Median*	*Mean*
1985	$ 766	28.1%	14.7%
1986	1,564	38.0	35.7
1987	3,842	56.0	43.7

Source: Call Reports

In Texas the condition of lenders depends on the prospects for real estate markets and the overall performance of the State economy The glut of office space and the intense competition for tenants could maintain downward pressure on lease rates for some years. Thus, a quick turnaround in the performance of bank real estate loan portfolios is not likely. Some recent data for the State economy do indicate that the worst may be over; many economic indicators for Texas leveled out in 1987 and advanced, albeit marginally, in the second half of the year. It will taken time for changes in the economic environment to be manifested in the performance of banks, but ongoing improvement in Texas, coupled with continued strength in U.S. economy, will aid the turnaround.

Capital

Determining an adequate amount of capital for each national banks is not a simple matter. Judgments about adequacy are made by examiners in light of risks that each bank faces. Experience has taught us that relating capital to assets is a good place to start. Our current minimum standard for each bank — set forth in 1985 in our capital regulation — 12 CFR Part 3 — is that primary capital, principally stockholders' equity and reserves for loan losses, should be no less than 5.5 percent of total assets. I would emphasize that the standard is a minimum. We can, and do, direct banks to hold capital in excess of the minimum when circumstances warrant. As I will discuss later, we are in the process of revising that regulation in order to move toward a risk-based approach to judging capital adequacy.

Under our current standard, at the end of 1987, 96 percent of all national banks had primary capital ratios at or above the regulatory minimum; 87 percent had primary capital ratios above 6.5 percent. However, it is not possible to state categorically, relating only Call Report data to our minimum standards, how many national banks have adequate capital.

Examiner judgments of capital adequacy are summarized in a rating system. The number 1 is assigned to well-capitalized banks, a 5 to banks in need of substantial additions to capital. At the end of 1987, 81.3 percent of all national banks had a capital rating of 2 or better.

Capital ratios have been generally rising since 1979. On average, banks in all size classes increased their ratios of primary capital to assets, with the biggest improvement coming at the largest banks.

Not all banks have been boosting their capital ratios in an identical manner. As bank size increases, the source of additions to primary capital generally shifts from additions to equity to additions to the loan-loss reserve. That shift has become more pronounced over time. At banks

Table 9

Primary Capital as a Percent of Assets
(National banks by asset size)

Year	Under $300M	$300M-$1B	$1B-$10B	Over $10B	All Banks
1978	8 05%	6 96%	6.10%	4 61%	6.01%
1979	8.22	7 08	6.09	4.50	5.96
1980	8.40	7 29	6.08	4.54	5.98
1981	8.46	7.27	6.16	4.65	6.01
1982	8.48	7.31	6.19	4.80	6.10
1983	8.44	7.34	6.43	5.08	6.31
1984	8.54	7.42	6.48	6.11	6.78
1985	8.57	7.47	6.72	6.37	6.95
1986	8.43	7 42	6.73	6.73	7.06
1987	8.76	7.60	7.29	7.40	7.59

Source: Call Reports

with assets of $300 million or less, equity was, on average, 90 percent of primary capital in 1987, about the same as in 1986 and down slightly from the 94 percent level of 1981. For national banks with assets over $10 billion, equity, on average, represented only 60 percent of primary capital. The loan-loss reserve represented 34 percent, twice that for 1986 and three times that for 1981, primarily a reflection of the sizable provisions made in 1987 in response to those banks' LDC exposures.

Problem Banks and Bank Failures

The past and present problems in certain sectors of the economy continued to take their toll on the banking industry industry in 1987. Problem banks and bank failures remained at high levels, although the sharp increases of previous years appear to be abating.

Problem banks. After increasing steadily since 1980, problem national banks, those with composite CAMEL ratings of 4 or 5, declined in 1987. There were 315 problem national banks at the end of 1987, down from 326 a year earlier. As of March 31, 1988, the number had dropped to 309.

The decline in the level of problem national banks was most evident in the Midwestern District, where the number of problem national banks fell from 61 at the end of 1986 to 42 last year. Several factors contributed to that improvement, including rising government support payments to agriculture, higher livestock and farm-land prices, and lower production costs in agriculture.

Only in our Southwestern District did the number of problem banks increase during the past year. As of March 1988, more than half of all problem national banks were located in the Southwest.

Failed banks. Sixty-one national banks failed in 1987, up from 48 in 1986. Two Southwestern states, Texas and Oklahoma, accounted for about two of every three national bank failures last year.

Through May 19 of this year, 17 national banks had failed, compared to 31 national banks for the same time period last year. We do not foresee that the number of national-bank failures this year will be below last year's total. We do estimate that there will be a slight decline in the number of national bank failures in 1989.

Causes of bank failure. There are various causes of bank failure. Weakness in the local economy obviously plays an important role. However, based on a study we recently conducted on failed banks, it is clear that capable managers are an integral factor in determining a bank's vulnerability to lean economic times. By the same token, weaknesses in the local economy expose poor managers who might have survived under more robust economic conditions.

In our study, we found that weak boards of directors and/or management contributed significantly to failure in 90 percent of 185 national banks that failed between 1979 and year-end 1987. Other factors that had a significant influence on failure included insider abuse (present in 36 percent of the failed national banks examined) and fraud (present in 12 percent). Depressed local economic conditions, while present in the majority of failed banks, were judged to be a significant cause of failure in only 35 percent of the banks, despite the disproportionately high failure rate in the Southwestern district.

Supervisory Response

The OCC, along with other bank supervisors, is striving to address the major problems facing the banking industry. Three areas that are part of our continuing supervisory efforts include: implementing a better method of assessing capital adequacy; alleviating the burdens associated with LDC debt; and handling insolvent institutions.

Risk-Based Approach to Capital Adequacy

Existing capital standard. In order to ensure that bank capital requirements appropriately reflect the risks banks face, we are developing, in cooperation with other federal bank supervisors, a new approach to the measurement and regulation of capital adequacy. The current capital standard has several weaknesses, which the new approach is designed to address.

First, the existing capital standard fails to differentiate explicitly between high-risk and low-risk assets. For example, U.S. Treasury obligations and loans to unrated commercial borrowers require identical capital, despite the fact that the former poses the smallest amount of credit risk that can be found in the marketplace. Second, the current standard does not require capital against off-balance sheet activities, such as standby letters of credit and loan commitments, which can expose the bank to more risk than do activities on the balance sheet. Third, it has allowed some banks to rely too heavily on the loan-loss reserve at the expense of equity. Fourth, the existing capital standard applies only to U.S. banks, resulting in inequitable standards among many banks that compete side-by-side in international markets.

Our current proposal. The OCC has worked with other U.S. bank supervisors and bank supervisors from several foreign countries to develop a capital standard that addresses each of those weaknesses. All have agreed to rank bank assets and selected off-balance sheet commitments in terms of their credit risk. High credit-risk instruments would require more capital than lower risk instruments.

The agreement calls for a minimum total capital to risk-adjusted assets ratio of 8 percent. In meeting that requirement, banks would have to have Tier 1 capital, which is essentially stockholders' equity, equal to at least 4 percent of risk-adjusted assets. The balance of the required capital could be met with additional Tier 1 capital or Tier 2 capital, which under the current proposal consists of certain types of preferred stock, subordinated debentures, and limited amounts of loan-loss reserves.

Our proposal focuses primarily on credit risk. However, a banking organization's capital base must be able to absorb losses stemming from other kinds of risk, such as foreign-exchange risk, liquidity or funding risk, and interest-rate risk. Thus, supervisory judgments of a banking organization's capital adequacy will continue to go far beyond simply calculating a capital ratio. Nevertheless, the risk-based standard provides bankers, investors, and bank supervisors with a useful benchmark or starting point to use in the analysis of capital adequacy.

I am aware of concerns that implementation of the risk-based capital proposal will place U.S. banks at a competitive disadvantage and will force them to raise capital funds by issuing equity securities. In assessing those concerns we must keep in mind that our proposal would give banks until 1992 to achieve compliance. Moreover, we estimate that the number of banks that would have to raise capital is small. Although we do not have precise data on the current risk-based capital ratios of banks

our data suggest that only 155 national banks, including the multinational banks, have Tier 1 capital ratios below 4 percent, and 478 national banks have total risk-based capital below 8 percent. It is also important to keep in mind that risk-based guidelines offer banks the option of adjusting their asset portfolios toward less risky assets. We also believe that the vast majority of nationally chartered community and regional banks would now easily meet the risk-based requirements.

Finally, a significant feature of the proposal is that it promotes comparability of capital standards among countries. The current proposal is the result of an agreement among twelve countries. Its adoption will help move us toward international competitive equity.

LDC Debt

Approximately $300 billion of LDC debt is held by lenders in the world's industrialized countries. The 20 largest U.S. banks hold about $70 billion of that debt.

The OCC continues to support implementation of the approach originally put forth by Treasury Secretary Baker, which involves a concerted effort by multilateral financial institutions, commercial banks, and debtor governments to alleviate burdens associated with that debt. The ultimate objective remains to assist national banks in facilitating solutions and transactions that will result in troubled LDCs being able to service their remaining obligations according to the terms of their debt agreements.

We believe that more could be done by U.S. banks and debtor governments to implement the Baker Initiative and the private-sector menu items enumerated by Secretary Baker earlier this year in remarks to the Bretton Woods Committee. Banks could take several steps to reduce the payment burdens of debtor countries and at the same time receive a more certain means of repayment. These include exchanging debt for direct equity investments or new notes or bonds convertible into local equity; converting term debt to general balance-of-payment loans; making trade and project loans to support private-sector production, in concert with IMF and World Bank structural readjustment programs; and agreeing to accept exit bonds that streamline new financing packages.

At the same time, debtor countries need to adopt more willingly macroeconomic and structural policies designed to promote economic growth that will reduce the burden of overall debt-repayment obligations.

There are bright spots, such as Chile, where the Baker Initiative is working well, because of the cooperative action of the debtor government, its private industries, and foreign creditors. To date, creditors of Chile have converted nearly 20 percent of that country's outstanding debt to productive equity investments. A similar open, clearly defined, and positive debt/equity swap program should be encouraged in Argentina, Brazil, Mexico, and other developing countries to expand investment in local enterprises.

The OCC has used, and will continue to use, our regultory authority to support implementation of the Baker Initiative and the menu items. In particular, we issued an interpretative letter in late 1987 approving the International Bank of Miami's exchange of $2 million in Mexican government debt for a 60 percent interest in a holding company that will own and operate private-sector real estate. In reviewing this transaction, the OCC recognized the bank's authority to take property in satisfaction of debts previously contracted (DPC). Other national banks have requested interpretations from our agency involving similar transactions in Mexico and other countries, and we anticipate that use of DPC authority by national banks will increase, especially if debtor governments amend their investment codes to permit investment by creditors in local industries.

In January 1988, the OCC also supported the debt-for-Mexican-government-bond swap program by issuing an opinion letter prospectively authorizing national banks to carry the new Mexican bonds as loans, within their legal lending limits, or, under certain conditions, as investment securities.

In the future, the OCC intends to review transactions proposed by national banks relying on any of the legal procedures described above, and also to assist national banks in structuring solutions to reduce the outstanding principal owed to them by LDC debtors.

Insolvent Institutions

Basic principles. As the supervisor of the national banking system, the OCC plays an important role in minimizing the negative impact that troubled or insolvent national banks can have on the safety and soundness of the banking system and its deposit insurance fund. The success of our supervisory efforts cannot be judged, however, simply by looking at the rate of bank failures.

We are, however, very concerned about bank failures, particularly those that can be attributed to fraud and negligence. In our testimony of last November before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations, we stated that no level of bank fraud or insider abuse is acceptable and that those who commit such acts must be punished. Despite our best efforts, fraud contributes to some bank failures, as our study of bank failures indicated.

To strengthen our ability to handle this problem, the federal bank and thrift supervisory agencies developed and recently submitted to Congress a joint proposal to amend the law to enhance our existing enforcement authority and better equip us to supervise the nation's depository institutions. One such amendment would clarify that the cease-and-desist authority provided under 12 U.S.C. 1818(b) includes the right to order directors of a national bank to reimburse their bank for losses resulting from their violations of law.

In dealing with insolvent or nearly insolvent banks, the OCC assists all concerned parties to work out a solution that is least costly to the FDIC, as required by the Federal Deposit Insurance Act. It is our policy not to insulate bank ownership or management from the consequences of their actions. Generally, uninsured depositors and other creditors are not given the same protection as insured depositors. They share with the FDIC in the proceeds of liquidated assets. On some occasions in recent years, all creditors have been protected. In those cases, it had been determined that to have done otherwise could have exposed many other banks to failure, subjecting the FDIC fund to additional burdens.

Supervisory options. Bank supervisors have many options for dealing with insolvent institutions. These include deposit payoffs, where the bank is liquidated, and purchase and assumption agreements involving the sale of the failed bank, less some or all of its bad assets, to a sound banking organization. In addition, there is the tool of open-bank assistance, where, in order to prevent the closing of a failing or insolvent institution, the FDIC advances funds to the institution in the form of a loan, purchase of assets, or other transaction, usually accompanied by the infusion of private capital.

The technique of open-bank assistance, as currently practiced, is relatively new. It is available to both small and large banking organizations, when the FDIC determines it is less costly than a deposit pay-off. Additionally, the FDIC Board of Directors will only approve applications for open-bank assistance if certain conditions are met. Those conditions are intended to ensure that banks receiving assistance have a good chance of becoming strong competitors and that managers, directors, and stockholders are treated in substantially the same way that they would have been treated if the bank had actually closed.

Between the beginning of 1987 and April 20 of this year, the OCC worked with the FDIC in providing open-bank assistance to a number of national banks. Those banks ranged in size from less than $10 million to over $1 billion. In one form or another, the FDIC spent slightly more than $2.1 billion in assisting those banking organizations.

Although the number of national-bank failures is likely to remain at a high level this year, we have most of the tools necessary for minimizing the difficulties that will create. Our problems would be less difficult if there were no legislated restrictions on branching and bank holding company acquisitions. We do not, however, favor suggestions made in other settings that would permit banks to carry assets at inflated values, or would extend or expand the capital forbearance program.

Other Banking Issues

That completes my assessment of the major themes that describe the condition of national banks and our supervisory response. I now turn to a number of issues raised in your letter inviting me to appear before this Committee. They cover concerns about the chartering and performance of new banks, several banking-market issues, examination scheduling, and the adequacy of staff resources at the OCC.

New Banks

Chartering policy. Our current chartering policy was adopted formally in October 1980, and is set forth in 12 CFR 5.20. Briefly stated, our decisions to grant charters are guided by the principle that, to the greatest possible extent, entry and exit decisions in banking are the province of the marketplace, not the government. Thus, we extend charters to those who have the financial, managerial, and other resources needed to operate a bank in a safe and sound manner and a demonstrated commitment to do so. We do not attempt to protect existing banks from the competition that a new bank may provide.

In evaluating charter applications, the Office assesses whether a proposed bank will have a reasonable prospect for success based on the experience, competency, and integrity of the organizers, the adequacy of the proposed capitalization, and the prospects for the business plan in the context of the economic and competitive conditions in the market to be served. When economic conditions deteriorate, applications filed typically decline, and the rate of denial usually rises.

The result of Office policy can be seen in Texas. As the Texas economy began to sour, the percentage of Texas applications denied increased steadily from a low of 2 percent in 1982 to a peak of 26 percent in 1985. In 1986, two out of a total of 14 applications acted upon were denied, and in 1987 two out of a total of three applications were turned down. Our denial rate for Texas charters reflects the difficulty that potential bank organizers face in developing operating plans that satisfactorily address a distressed economic environment.

Performance of new banks. Since 1981, the OCC has chartered 1,159 national banks. Eighty-five percent of

those banks are still operating. Sixty-one have failed, comprising 34.4 percent of all national bank failures since 1981. A higher failure rate for new banks than for established banks is in keeping with developments in other industries. For example, in 1986, according to data compiled by The Dun & Bradstreet Corporation, 61 percent of all business failures involved firms that had been in operation 6 years or less.

In recent years, the profitability of new national banks has declined. The median return on assets of new national banks (defined as those in operation for not more than three years) declined precipitously from a peak of 0.47 percent in 1981 to a low of −0.47 percent in 1987. Over the same period, the median ROA of mature national banks declined from 1.09 percent to 0.82 percent. As a result of diminished profitability and the amendment of anti-branching statutes in several states, the number of applications for new national banks declined each year from 1981 to 1986 before increasing slightly in 1987. One hundred and nine applications were received in 1987, down from 267 applications in 1981.

Asset Securitization

Asset securitization is a process whereby banks sell assets or borrow against them. It is simply another method for attracting funds to carry on traditional bank lending activities. It has enabled banks to free themselves from normal funding constraints and to lessen their vulnerability to changes in local economic conditions.

I am aware that some who follow banking developments wonder if banks will securitize their best assets, leaving them with only their poorest loans. That concern has not been validated by the transactions that have taken place. Rather, asset securitizations typically involve standardized loans that are selected because they are the bank's best loans. To date we have not observed any deleterious effects of asset securitization on the quality of bank portfolios.

Thus far, most securitization activity has been concentrated in the residential real estate mortgage area where the market for asset-backed securities is well-established. As currently practiced, it has significantly increased the liquidity of otherwise nonliquid bank assets and provided bank lenders with a steady stream of fee income. This has been accomplished with the assumption of very little additional risk and with an expansion of competitive banking services available to the public.

Judging from that experience, it is logical to assume that the wholesale extension of the securitization process to other consumer loans (some consumer credit card and automobile paper originated by banks have been securitized) and to commercial credits will yield similar benefits, with relatively low levels of risk for well-managed banks.

Globalization of Financial Markets

The financial services industry has witnessed a remarkable and rapid development of international markets. This has been made possible by major leaps in information technologies and increased competition among international commercial bankers, investment bankers, and securities exchanges. Also, some countries with major money centers have liberalized their regulatory structures to enhance their roles as financial centers.

But computers and deregulation here and abroad are not the cause of this global evolution in the financial markets; rather they are providing the means for the financial services industry to respond to demands of the market. Customers, such as U.S. corporations, require the ability to raise capital in a variety of countries or hedge interest- and currency-rate risks. Access to international markets allows them to satisfy those needs at the lowest possible cost. The U.S. economy benefits as capital costs of U.S. firms are reduced.

In order to compete in these markets, bankers will need to develop new and sometimes complicated products. Indeed, they have already found new ways to generate income. Some of the new instruments will involve parties from several countries and bear some of the characteristics of debt, securities, and futures contracts. These financial instruments will pose new challenges for bank management and regulators.

It is important that the U.S. respond in a way that allows our banks to compete on an equal footing with their international competitors, consistent with adequate protection of insured deposits. The evidence suggests we have been slow to give national banks the flexibility they need.

We must do several things. First, we must avoid the temptation to discourage banks unnecessarily from participation in global markets merely because we are afraid they may be exposed to new risks or because the arrangements are complex. We must allow bank managers to exercise their own judgment, and, as is inevitable, to suffer some losses. Our job is to make sure the bank has policies and procedures designed to protect insured deposits and to deal with losses when they occur. Second, when we impose certain regulatory requirements, we must work with our counterparts in our major trading partners to avoid placing U.S. banks at a competitive disadvantage. Finally, we must relax constraints on permissible bank activities to accommodate changing financial markets. Failure to do so will only mean that the markets for new financial services will develop outside our shores. The Senate has already taken an important step in preventing that development with the passage of S. 1886.

Support of Securities Markets

The events surrounding "Black Monday" have raised concerns about the effects of such a calamitous event on banks and their customers. OCC staff has investigated that issue in response to an inquiry from Congressman Barnard. We conducted interviews with senior bank officers from a cross-section of eight regional and multinational banks concerning their experiences during the October 1987 market crisis. The national banks that routinely provide credit to market participants continued to provide credit support to the securities industry during that time. In almost all instances, those banks extended credit to market participants when asked to do so and on their usual terms.

Double Leveraging

Double leveraging is the term given to the issuance of long-term debt by a parent bank holding company, with the proceeds being invested as equity capital in one or more subsidiary banks. There has always been concern that the holding company parent would place special demands upon its subsidiary banks for dividends and other payments so that it could meet interest payments on the debt it issued. We rarely see such pressure placed on national banks that are members of holding companies. When we do, we exercise our authority to limit a bank's payment of dividends and otherwise restrict flows of capital from the bank to the parent, if that capital is needed in the bank.

Bank Examinations

Examination scheduling. Within the context of our limited resources, implementation of the OCC's 1988 supervisory plan is on schedule. Approximately one-third of the way into 1988, OCC has completed 1,440 or 36 percent of its planned on-site reviews for 1988 and has completed 1,403 or 33 percent of its regularly scheduled analyses for the year.

Supervision of national banks is an ongoing process, involving both on-site and off-site reviews. Examiners are assigned a portfolio of individual banks and for each they develop an annual supervisory strategy specifically tailored to that bank. It includes a list of our concerns and ways to address those concerns. Updates are performed as circumstances warrant. Generally, at least once a year, the OCC sends the bank a Report of Supervisory Activity. This report addresses supervisory actions or concerns and requests that the bank respond to the findings.

Adequacy of examination staff. As the members of this Committee recognize, OCC needs a workforce that is sufficient both in number and experience to deal effectively with the complexities of today's financial services industry. In the past, high turnover levels prevented us from maintaining optimal staffing levels. In addition we instituted a hiring freeze in 1986 to stay within Gramm-Rudman-Hollings spending targets. Although we are now making progress toward appropriate staffing levels, it takes some time for a newly hired employee to gain the skills required to become fully productive. Our current need for greater numbers of seasoned examiners, therefore, is the legacy of past interruptions in our hiring and high turnover. Approximately 25 percent of OCC's commissioned examiner positions are vacant. Functions that would ideally be performed by commissioned National Bank Examiners are now performed by less-experienced Assistant and Associate National Bank Examiners. Although we have seen some reduction in overall turnover, I am concerned that our continued ability to meet our scheduled examination priorities with the professionalism and expertise they deserve is being compromised.

Conclusion

Despite all its well-publicized problems, the national banking system is fundamentally sound. It has been put to some rather severe tests and has proved itself deserving of the confidence of the American public.

The true condition of the national banking system can best be seen by looking beyond the typical aggregate measures of performance that were influenced by the results for a few dominant banks. As I have reported, for the majority of national banks, profitability stabilized after years of steady erosion; most measures of asset quality improved; and capital ratios increased.

However, we remain concerned about the problems faced by national banks. We have joined with bank supervisors here and abroad to fashion a risk-based approach to capital adequacy. Within the limits of the national banking laws, we are working with the large banks as they explore innovative financial arrangements that accommodate their needs and those of their troubled LDC customers. We are working with the FDIC to ensure that we deal with troubled institutions in the least costly manner. In that regard we have assisted in several open-bank assistance transactions.

Banks must be sensitive to the excesses that led to current problems. Today, banks in the Southwest are having difficulties; several years ago, that was true of banks in the Northeast and Southeast that are doing relatively well. The business cycle is a fact of life, and only by maintaining prudent credit standards and building capital during good times can banks prepare for the inevitable downturns in their markets.

There are other problems facing our banking system. As I have stated in other appearances before this Committee,

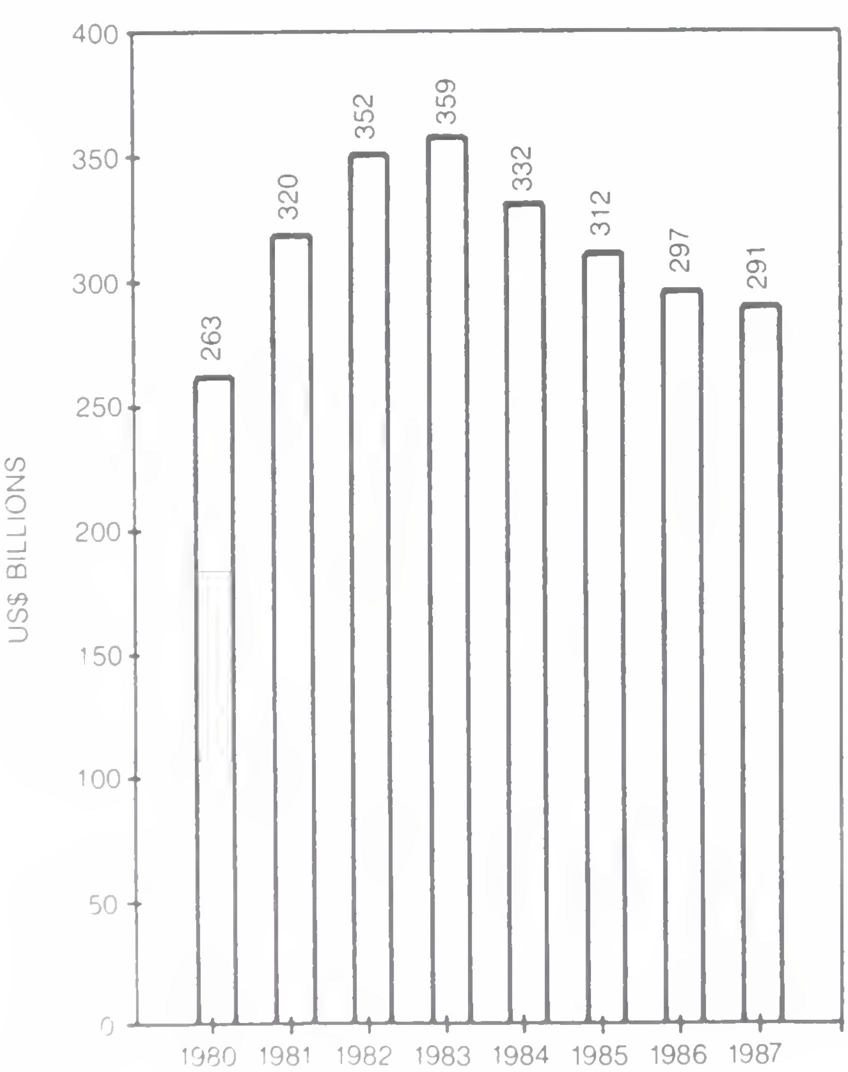
I am concerned about the constraints on the ability of national banks to respond to the increasing competition that they face in the market for financial services. There are many reasons for my concern: there are the impediments that prevent banks from providing services that would benefit consumers; there are the provisions of federal law which permit securities firms and insurance companies to offer a wide range of banking services, but limit the securities and insurance services available from banks; and there is the long-run decline in the profitability of banking itself.

Your efforts, Mr. Chairman, led to Senate passage earlier this year of legislation that would remove some of the limitations on the ability of banking organizations to respond to that competition. Without similar action by the House of Representatives, there exists the potential for a fundamental erosion in the vitality of the U.S. banking industry — a result that must be avoided.

Appendix

Charts on Foreign Debt Exposure

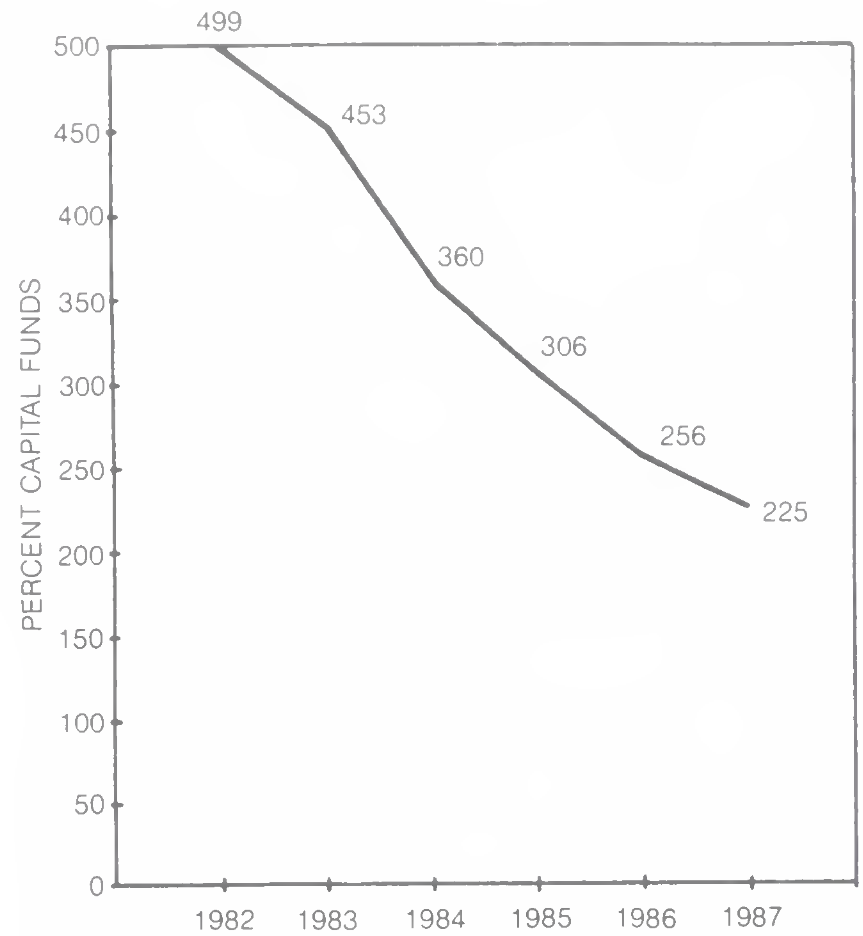
FOREIGN CLAIMS OF U.S. BANKS ARE NOW BELOW 1981 LEVEL AFTER PEAKING IN 1993



EX LOCAL CURRENCY ADJUSTED CLAIMS

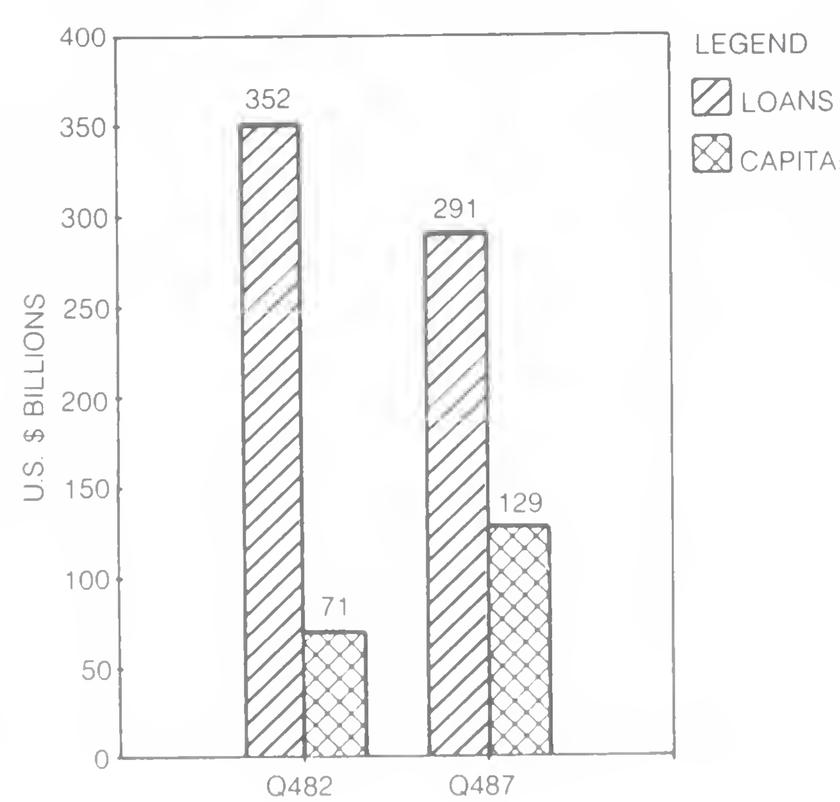
Source: FFIEC

FOREIGN CLAIM EXPOSURE OF U.S. BANKS — AS PERCENT OF THEIR TOTAL CAPITAL FUNDS



Source: FFIEC

EXPOSURE IS REDUCED BECAUSE CAPITAL IS UP $58 BILLION LOANS ARE DOWN $61 BILLION



Source: FFIEC

Remarks by Robert L. Clarke, Comptroller of the Currency, before the ABA's Stonier Graduate School of Banking, Newark, Delaware, June 20, 1988

"Banking in Troubled Times: What Hurts? What Helps?"

Several years ago, the American existentialist philosopher Woody Allen began a graduation speech in this way: "More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other, to total extinction. Let us pray we have the wisdom to choose correctly." Allen wasn't talking to the Stonier School of Banking. But if he had been, he would merely have been echoing widely held sentiments about the banking industry.

Throughout the 1980s, the number of troubled banks, and the number of bank failures, have risen dramatically. In the Midwest and the Southwest especially, depressed conditions in agriculture, in energy, and in real estate have pummeled banks like tempests battering ships at sea.

Hundreds of banks have foundered. Hundreds more have barely weathered the storm. Yet, others have righted themselves. And thousands in America's heartland have sailed through the storms practically unharmed as a matter of course.

Over the last year, the Office of the Comptroller of the Currency undertook a detailed study to gain a better understanding of why the performance of banks diverged so dramatically when they were faced with similar declines in their economic environments over the last decade.

We looked at three groups of banks: those that failed, similarly situated banks that experienced problems but were restored to health, and banks whose condition never deteriorated despite the problems in their local economies.

We were looking for the answers to several questions. What common characteristics and conditions were present in failed banks? Were there characteristics and conditions in common among the problem banks that rebounded, both when they were deteriorating and when they were rehabilitating themselves? What characteristics and conditions did the consistently healthy banks share? Did the characteristics and conditions differ significantly among these groups of banks? Why do many banks that operate in a depressed economy remain relatively healthy? What went wrong in the failed banks? And, most important, if we could find what went wrong in the failed banks, can anything be done about it? In other words, the big question we sought to answer was: do some banks, as a matter of uncontrollable fate, of economic determinism, face a crossroads where one path leads to despair and utter hopelessness and the other to total extinction?

The thesis I present to the Stonier School of Banking tonight is: in the vast majority of cases, banks are not the prisoners of fate — damned if they do, damned if they don't. Most often, banking performance, good and bad, is primarily the result of managerial behavior, even in depressed economic environments.

In most cases of bank performance we reviewed, specific patterns of practices within a bank itself determined its success or failure, although economic problems in the market served by the bank often played a contributing role. Our findings shouldn't come as a complete surprise.

Last January, we released the preliminary results of the first phase of our study, a phase that focused on our analysis of the common characteristics and conditions in national banks that failed over the last decade.

Based on our preliminary findings, we concluded that, while poor economic conditions certainly make banking more difficult, the efforts of management have greater influence on success or failure.

We found that the most common characteristic of failed banks was that they were poorly managed, and by that I mean that the banks failed to establish and adhere to policies, they failed to develop managerial direction and routine that would see them through bad economic times.

In the second and final phase of our study, which I'm here to discuss tonight, we performed the same analysis on similar groups of rehabilitated and healthy banks as we did on the failed banks. The results of the second phase were to be a test of the findings in the first phase. In other words, through comparison and contrast of the three groups of banks, we sought to determine whether successful banks established and adhered to policies that would see them through bad economic times.

We had a theory, based on years of experience in supervising banks in a variety of geographic and economic markets, that sound operating policies and procedures would enable banks, as a general rule, to weather economic difficulties in the markets they serve. We found that our theory was valid.

Before I turn to our study's findings in detail, I want to briefly describe how we went about developing those findings.

In the first part of our study, we analyzed 171 failed national banks to identify characteristics and conditions present when these banks deteriorated. These banks were 94 percent of the national banks that failed between 1979 and 1987. Nine out of ten of these banks had assets of $100 million or less, and almost eight out of ten had assets of $50 million or less. Eighty-five percent of these banks were in our Midwestern, Southwestern or Western supervisory districts.

We conducted the same evaluation for a sample of 51 rehabilitated banks in similar circumstances that experienced significant difficulties and recovered. By that I mean that, according to our rankings, these banks fell from being among the healthiest banks to being problem banks, and then returned again to health, during the years 1979 through 1987. We looked at them both when they were declining and when they returned to health. Again, about nine out of ten of these banks had assets of $100 million or less. Eight out of ten were located in our three western districts, and they included banks in Dallas, in Houston, and in Oklahoma City.

Finally, we evaluated a sample of 38 healthy banks facing economic problems that maintained good or superior supervisory ratings, our two highest ratings, during the same period. Again, about nine out of ten of these banks had assets of $100 million or less and eight out of ten were located in our three western districts.

In other words, the rehabilitated bank and healthy bank samples were chosen to conform as closely as possible to the failed banks in terms of location, problems in the economy, and asset size.

Using examination reports, bank histories prepared by OCC examiners, and other information provided by banks and examiners, we subjectively, and I stress the word, "subjectively," evaluated each bank's performance in eight broad categories: policy, planning, and management quality; audits, controls, and systems; asset quality, liquidity and funds management; nonfunding expenses; insider abuse; fraud; and economic environment.

Within each of the eight categories, we evaluated a number of specific characteristics to determine whether each was significantly present, marginally present, or not present at all. By evaluating these factors, it was possible to detail the particular difficulties and strengths that banks had within each of the broader categories.

Why do I stress that our study is a subjective evaluation? First of all, the evidence we worked with was itself a compilation of subjective evaluations. Bank supervision, after all, is a judgment business. The tools in a bank examiner's kit — financial formulas, statistical sampling and so on — are intended to present the examiner with the means to measure a bank's financial condition objectively. But once the numbers are run, the examiner's own knowledge, experience and expertise come into play in interpreting what the numbers mean. Second, we approached the evidence to write a clinical history of what went wrong, and what went right, in a large number of specific case histories in the past. Historical accounts are invariably subjective.

Furthermore, rather than trying to establish cause-and-effect, the goal of science, we were trying to discover whether there exist associations among a number of factors we reviewed and, if there do, to get some idea of how strong these associations were. Rather than seeking immutable laws of nature, we were searching for broad correlations. As a result, we don't claim that our study is "scientific" in the technical meaning of the term.

But that doesn't mean that it isn't meaningful or accurate. Just as a painting may be just as accurate and more meaningful than a photograph, we believe this study is just as accurate, and at least as meaningful, as a technically scientific study would be.

Many years ago, when the hard-drinking Hack Wilson was slugging for the Brooklyn Dodgers, his manager, Max Carey, called a meeting of the entire team. Although Wilson was hitting .300 for the Dodgers and pumping out home runs, Carey believed he had to save Wilson from his drinking habit. Although he had done no scientific study of the effects of mass alcohol consumption on ballplayers, Carey's experience and judgment told him that drinking diminished athletic performance. So Carey tried the psychological approach to wean Wilson from drink. Nothing had worked.

As he called the player meeting together, Carey stood at a table on which he had placed two glasses and a plate of live earthworms. One glass was filled with water. The other was filled with gin, Wilson's favorite drink. With a flourish, the manager dropped a worm in the glass of water. It wriggled happily. Then Carey plunged the same worm into the gin. It stiffened and died. A murmur ran through the room. Some of the players were obviously impressed. Not Wilson. Hack didn't even seem interested. Carey waited a little for some delayed reaction. When none came, he prodded: "That mean anything to you, Wilson?" "Sure, sir," the star player answered: "It proves that if you drink gin, you'll never have worms."

Scientific observation is, in and of itself, no guarantee of meaning or accuracy. All that being said, what did our

study find? Tonight I will describe in detail our findings in four areas: general management; loan portfolio management; the role of the chief executive officer; and fraud and abuse.

I will then discuss why some problem banks recovered while others failed, and why the continuously healthy banks stayed healthy. Finally, I will put our findings in perspective.

As I said before, management — by senior officers, by the board of directors — is key to a bank's success or failure. Managers must manage or suffer from the consequences of their failure to do so.

Now management is one of those cosmic terms that covers a multitude of virtues and skills. It includes strategic vision, a vision of where the management wants the institution to be 5 years from now or 10 years from now. It includes inspiring and motivating staff, that is to say how to get people to do what you want them to do when you want them to do it, how to take responsibility and to be accountable for it. It includes so much that it is virtually impossible to define "management" definitively. But for the purposes of our study, we didn't need a definitive definition, only a working definition. For the purposes of our study, we defined management as a process to ensure the right things are done and that things are done right.

To manage is to maintain control. To maintain control you have to make decisions. To make decisions you have to know what is going on in your institution and you have to have the means to take action when you need to. In other words, you have to know where you are, where you want to go, and how to get there. And you have to do these things day-by-day, or ensure that they are being done, or the institution will soon be out of control.

Our study found that deficiencies within boards of directors and management were the primary internal problems of problem and failed banks. We found that more than half of the failed banks had directorates that either lacked necessary banking knowledge or were uninformed or passive in their supervision of the bank's affairs. And, significantly, more than half of the rehabilitated banks had similar deficiencies as they declined into problem status.

In contrast, none of the boards of the continuously healthy banks, or of the rehabilitated banks upon their return to health, had significant deficiencies in these areas.

As I stated before, as part of our evaluation of management, we looked at the policies, controls and systems of every bank in the study. Significantly, we found that these problems at failed banks were related to poor board or management supervision.

Most failed banks either had no loan policies, or, if they did, the policies were not followed. Most had inadequate systems to ensure compliance with internal policies or banking laws. Most had inadequate controls or supervision of key bank officers or departments. More than half had inadequate problem loan identification systems. In more than half, one dominant individual made decisions. And about half had nonexistent or poorly followed asset and liability management policies.

In general, we found that our group of rehabilitated banks had similar problems during their decline as the failed banks did. In other words, problem and failed banks consistently lacked policies, systems, and controls to guide their staffs in performing the necessary job of managing an income producing loan portfolio.

In contrast, while healthy banks were not immune to some of the negative factors found in problem or failed banks, these detrimental conditions were less frequent or intense, and healthy banks were less likely to have them in combination.

Almost all the healthy banks had strong controls over key bank officials. Most had strong management information systems. More than half had strong problem loan identification systems. Half had strong loan policies, policies that were followed. And almost half had fully effective systems to ensure compliance with internal policies and laws.

We also looked at the loan portfolio management practices at every bank in the study. Here we found another set of problems that prevailed in failed banks, a set of problems that generally reflected overly aggressive activity, which can be described as when the management or board was excessively growth minded, or when they followed liberal credit views.

Aggressive, growth-minded behavior is not, in and of itself, a weakness. In fact, when an aggressive approach is combined with well-established policies and controls, it can be a successful strategy. But we found that when an aggressive approach is not combined with such policies and controls, there are likely to be problems.

In most of the failed banks we found that the board or management was overly aggressive to some degree; and in almost half, the boards were aggressive in a way that had had a significantly negative effect on performance.

What set of problems did we find in loan portfolio management practices? Most failed banks followed liberal lending practices; that is to say, liberal repayment terms collection practices, or credit standards. None of the healthy banks did. More than half of the failed banks had excessive loan growth in relation to their resources to back it up: managerial ability, staff, control systems or funding sources. Virtually none of the healthy banks did

Almost half of the failed banks placed undue reliance on volatile liabilities, and many had problems with inadequate liquid assets as a second source of liquidity.

During their decline, the rehabilitated banks also experienced problems associated with overly aggressive behavior, but significantly less frequently than the failed banks did.

I want to stress that, among the healthy banks, overly aggressive behavior was nearly nonexistent. This evidence indicates that overly aggressive behavior may well underlie severe problems and make recovery from those problems much less likely.

Overly aggressive behavior — for example, growth for growth's sake, or growth without the resources to back it up — is a highly risky strategy because it leaves the bank exposed when the economy turns down. In other words, when the economic tide goes out, you find who is swimming naked.

One finding from our study appears self-evident at first glance: the capability, experience and integrity of the chief executive officer is probably the most important determinant of the success or failure of a bank.

Our study gives us a clearer perspective of just how much that is the case: CEOs had significant weaknesses at many of the failed and problem banks. We found that almost two-thirds of the failed banks had CEOs who clearly lacked the capability, experience or integrity necessary to make their banks successful. Most of the rest of the failed banks had CEOs who showed some signs of weakness in these areas. In the rehabilitated banks in their declining stage, more than half the CEOs had at least marginal shortcomings, and a large number evidenced significant shortcomings. By contrast, in the continuously healthy banks, there were no problems apparent with CEO experience, capability, or integrity.

It is a common to compare the CEO to the captain of a ship. This comparison is a cliche because the surface similarities are so striking. But in terms of banking, the similarities go far deeper than the surface. The captain determines where the ship will go and how it will get there. That's navigation. But it is also the captain's responsibility to ensure that the ship is in optimal condition, ship shape so captains are steeped in engineering and ship handling to understand each of a particular vessel's strengths and weaknesses. That's practical nautical expertise. Furthermore, the captain must have the knowledge of how to function in varying circumstances — calm seas and high, good weather and bad — knowledge in theory and in practice, in general for all ships and in particular for the one in his charge. That's seamanship. Finally the captain must know the responsibilities of his crew, must make sure that they know what their responsibilities are, and must hold them accountable for doing their jobs. That's command.

The captain's skill, expertise, knowledge and effort are the most important factors that determine whether the ship remains afloat or smashes up on the rocks; whether the ship ends up at the destination, or ends up adrift, the prisoner of currents. A captain needs tools to do the job: compass or computer for charting and remaining on course. And a captain needs frequent and complete reports from his officers to ensure that his commands are being followed, that the ship remains on course, that nothing is going wrong.

Why must a captain know so much and do so much? The captain cannot control the sea, so he must have complete control of his ship. The bank CEO has no control over the economy, so he better have control over the bank. Remember, too, that a CEO is like a ship's captain in one other important respect. Traditionally, the captain goes down with his ship.

That reminds me of an incident that occurred at the end of World War II. Admiral Nimitz and General MacArthur were fishing together in a small boat off the coast of the Philippines. In a sudden squall the boat capsized, and the eminent warriors found themselves floundering helplessly in the water. The admiral was the first to pull himself up on the keel of the capsized boat, and with the aid of an oar he finally was able to pull the general up, too. After catching their breath, the admiral said to MacArthur: "Now, Mac, please don't mention this to anyone. You see, I'd be disgraced if the men of the Navy learned I can't swim." "Don't worry," MacArthur replied, "your secret is safe. You see, I'd hate to have my men find out I cannot walk on water."

No one expects bank CEOs to be able to walk on water, but it's not unreasonable to expect them to show leadership and capability what ever way the weather blows.

I would like to touch on the last major area of findings in our study: insider abuse and fraud. Insider abuse was a significant factor leading to failure in about a third of the failed banks. About a quarter of these failed banks with significant insider abuse also had significant problems involving fraud.

During their decline, about a quarter of the rehabilitated banks experienced significant insider abuse. In contrast, of the continuously healthy banks, only one had a marginal problem with fraud and another with insider abuse.

As you might expect, problems of insider abuse and fraud were often related to the lack of oversight and controls. Several conditions, found more often in failed banks that

experienced significant insider abuse and fraud than in failed banks that did not, may have provided the opportunity for such problems to become significant. They included: inadequate supervision of key officers; a dominant decision maker; unwarranted concentrations of credit to one industry; and inadequate guidelines for purchasing loan participations.

Generally these conditions, with the exception of a bank's reliance on one dominant decision maker, were at worst only marginally apparent at the continuously healthy banks. Apparently, proper supervision of bank officers and formal guidelines to monitor and control lending practices also helped to limit insider abuse and fraud.

Why did some problem banks recover while others failed? In looking at the problem banks that recovered, we found that a number of factors contributed to their rehabilitation, including changes in management; improved banking practices; changes in banking philosophy; capitalization; and improved local economic conditions. In spite of a few lingering problems found at the rehabilitated banks, their efforts to make important changes were clear. Also, the fact that rehabilitated banks — during their decline — were less likely to have an overly aggressive board of directors or to follow practices that might be judged overly aggressive worked in their favor.

Furthermore, rehabilitated banks had a much better record of compliance or partial compliance with administrative actions taken by the OCC than the failed banks did. While we took administrative actions in roughly similar percentages with the failed and rehabilitated banks, the rehabilitated banks made a serious or competent effort to meet, and succeeded in meeting, our directives more than twice as often as the failed banks did.

While a banker's job is undoubtedly easier in a strong economy, strong management and systems can prevent failure and promote recovery even during difficult economic times if management and the board of directors act quickly and positively. The evidence in our study shows that attention to and compliance with administrative actions have a positive effect on a bank's condition.

Why did the continuously healthy banks stay healthy? Our analysis showed that the banks we evaluated were not totally free of managerial shortcomings or externally generated economic problems. However, we found that these banks generally had far fewer internal difficulties — in management, in systems and controls, and so on — than the banks in the other groups. Clearly, the best way for management to weather an economic storm is to minimize internal shortcomings.

A strongly managed bank with adequate systems in place and followed is best prepared to remain profitable in bad times as well as in good times. The way to maintain a bank's health, therefore, appears to be to limit the number of shortcomings of management, the board of directors, and the policies and systems they put into place

Although the healthy banks were not completely without weaknesses, their weaknesses were generally isolated and offset by strengths in other areas.

I can draw an imperfect analogy between a person's health and a bank's health. You are probably not doing yourself grievous harm if you have a cigar once a month or a glass of wine on Saturday night or a piece of cake on your birthday or you don't exercise quite as much as you should or you are five pounds above your optimal weight. But chances are that your patterns of behavior have left you in poor shape to weather a sudden onslaught of stress and strain if you smoke two packs of unfiltered cigarettes a day; drink a quart of gin every night; the staples of your diet are doughnuts, pizza and beer; and the last time you broke into a sweat from physical exercise was in high school gym class.

Building a strong bank, one that can survive stress and strain, requires the same commitment and attention to detail, the same conscious effort to do the right things, as building a strong body does. Or, looking at it another way, good management practice, in banking or any other business, is a mosaic of management procedures that, when isolated, may not be that meaningful but that, when fitted together with understanding and imagination, create order.

It has been said that the difference between school and real life is that in real life first you get the test, then you learn your lesson. Over the last decade, many banks have been tested. Some have passed. Others have failed. But there are lessons in all of their real life experiences for bankers everywhere.

Bankers are not in a position to exercise any great influence on the external conditions they face. Like the captain of ship, they sail on an ever-changing sea. But, again like a ship's captain, bankers are in a position to ensure that their charge is prepared for whatever change the future may bring. Bankers are in a position to change their internal operating procedures. If bankers don't plan and prepare now to endure change, they will likely pay later.

Our study demonstrates that banks are able to remain healthy institutions throughout economic fluctuations by establishing and maintaining strong internal policies, systems, and controls. Without such policies, systems and controls, banks are more likely to succumb to external pressures.

Problem and failed banks are almost never simply the result of depressed economic conditions. There is no

single simple reason why banks get into trouble or why they don't.

There is no single panacea that will swiftly and surely transform a troubled bank into a profitable and sound institution.

Management — day-to-day management — nuts-and-bolts management — is an attitude and a series of basic, fundamental steps that, taken together, keep an institution healthy and that restore strength and profitability to those institutions that have declined.

In the evolving business of banking, the successful bankers will be those who understand the risks of the businesses in which they are engaged, who ensure the expertise of their board and management, and who establish the operating capability to handle the products and services they offer.

I would like to close by again quoting the words of the American existential philosopher Woody Allen: "Life is divided into the horrible and the miserable." For bankers, neither has to be the case. Bankers have a choice.

Interpretive Letters—April 15 through June 15, 1988

	Letter No.
Laws	
12 U.S.C. 24 (7)	420, 421, 422, 423, 424, 425, 426, 427, 428, 429
12 U.S.C. 29	420
12 U.S.C. 36 (f)	428
12 U.S.C. 78	425
12 U.S.C. 92a	424, 425
12 U.S.C. 377	425
12 U.S.C. 378	423, 425
18 U.S.C. 709	424
Regulations	
12 C.F.R. 5.34	420, 423, 424, 426
12 C.F.R. 7.5220	429
12 C.F.R. 7.7115	429
12 C.F.R. 7.7312	423
12 C.F.R. 7.7380	428
12 C.F.R. 9.12	425
12 C.F.R. 9.18	425

420—March 8, 1988

F. Mitchell Walker, Jr.
Bass, Berry & Sims
First American Center
Nashville, Tennessee 37238

Re: AmeriStar Capital Markets, Inc.

Dear Mr. Walker:

This is in response to your letter of October 23, 1986, requesting confirmation that a national bank's securities brokerage operating subsidiary may act as agent for its customers in the purchase and sale of publicly offered real estate limited partnership interests. The Office believes such activity is permissible for national banks and their operating subsidiaries.

Your inquiry further concerns the notification by First American National Bank of Nashville (Bank) of its intent to establish a wholly owned operating subsidiary, AmeriStar Capital Markets, Inc. (Subsidiary). The Bank notified this Office of its intent to establish Subsidiary earlier in 1986. By letter dated June 18, 1986, the Office advised the Bank that it could establish Subsidiary to perform discount brokerage activities. By subsequent letter dated June 27, 1986, this Office approved the inclusion within Subsidiary's activities of buying and selling shares in mutual funds and units in unit investment trusts as agent for its customers. The Bank also desires to act as agent for its customers in the purchase and sale of publicly offered real estate limited partnership interests and requests the Office's opinion confirming that this activity is permissible for the Subsidiary.

Facts

The following description of the Bank's proposed activities is based upon your letter and subsequent telephone conversations with Richard H. Cleva, a senior attorney in the Legal Advisory Services Division of this Office.

A publicly offered real estate limited partnership is a limited partnership organized to raise money, purchase, and manage real estate. The general partner of the limited partnership is usually an entity affiliated with its organizer (Sponsor). Historically, such limited partnerships have been formed by companies engaged in real estate syndication activities. The interests in a publicly offered limited partnership are the subject of a Registration Statement filed with and declared effective by the Securities and Exchange Commission. Although there may not be an active trading market for such interests, generally they can be resold by a customer who purchases such interests without further registration under the securities laws based on the exemption provided by Section 4(1) of the Securities Act of 1933, as amended.

Subsidiary desires to offer its customers the ability to conduct transactions in publicly offered real estate limited partnerships. Subsidiary will not act as a Sponsor of such limited partnerships and will be under no obligation to sell or promote any limited partnership interests. Subsidiary will not have any discretion to make investment decisions for its customers with respect to any limited partnership interests and will merely act as a customer's agent in the purchase or sale of such interests.

Subsidiary will make the availability of this service known to customers through a reference in brochures or advertisements generally listing the securities services offered by Subsidiary. Subsidiary may facilitate the availability of limited partnership prospectuses to customers upon customer request and may forward a copy of the prospectus to the customer. Subsidiary will inform the customer that the prospectus is provided by the Sponsor and that Subsidiary is not affiliated with or endorsing the limited partnership but is forwarding the prospectus as a service to the customer. Subsidiary will receive compensation from the Sponsor when acting as a customer's agent in the purchase of interests during the initial public offering thereof by the Sponsor and will receive transaction-based compensation from its customers as their agent in any secondary market trading.

Discussion

It is your opinion that section 16 of the Glass-Steagall Act, 12 U.S.C. § 24(7), permits such brokerage activities with respect to the publicly offered real estate limited partnership interests, relying on the established agency and judicial precedent that securities brokerage activities as agent for customers are expressly permitted under the Act. *See, e.g., Securities Industry Association v. Board of Governors of the Federal Reserve System,* 468 U.S. 207 (1984); *Securities Industry Association v. Comptroller of the Currency,* 577 F. Supp. 252 (D.D.C. 1983), *aff'd per curiam,* 758 F.2d 739 (D.C. Cir. 1985), *cert. denied,* 106 S.Ct 790 (1986) (securities brokerage), *rev'd,* 93 L.Ed.2d 757 (1987) (branching issue) (*Security Pacific*); OCC Letter No. 363 (May 23, 1986), reprinted in Fed. Banking L. Rep (CCH) ¶ 85,533.

The Office concurs with your analysis that, if publicly offered real estate limited partnership interests are securities covered by the Glass-Steagall Act, then national banks would be permitted to buy and sell them as agent for customers under section 16. Accordingly, Subsidiary's proposed activities would be permissible.

However, at this point we need not decide whether such real estate limited partnership interests are securities under the Glass-Steagall Act, because, if they were not, it would also be permissible for national banks to buy and sell them as agent for their customers. Since the activity

is permissible whether or not the interests are securities under the Glass-Steagall Act, it is unnecessary to determine their status under the Act.

National banks may act for their customers in the purchase and sale of financial investment instruments, such as these real estate limited partnership interests, regardless of whether investment instruments are securities under the Glass-Steagall Act or not. The provision of such investment brokerage services for customers is an attribute of the business of banking.

This authority is evidenced in the history of the years prior to the passage of the Glass-Steagall Act and predecessor provisions in the 1927 McFadden Act. In the later decades of the 19th century and early decades of the 20th, national banks had come to engage in the businesses of underwriting, dealing and brokering of various types of instruments. This development was based upon the banks' general charter authority to engage in the business of banking and was an expression of their banking authority applied to the then newly developing types of instruments and financing processes. *See, e.g.*, S. Rep. No. 473, 69th Cong., 1st Sess. 7 (1926); H.R. Rep. No. 83, 69th Cong., 1st Sess. 3 (1926) (securities trading as "a type of business which national banks are now conducting under their incidental charter powers"). *See also* S. Rep. No. 77, 73rd Cong., 1st Sess. 16 (1933) (phrase in Glass-Steagall Act will permit banks securities brokerage "to the same extent as heretofore"); *Security Pacific*, 577 F. Supp. at 255 and 93 L.Ed.2d at 774-75 (discussing bank brokerage activity prior to 1927). *See generally* F. Redlich, The Molding of American Banking, Volume 2, at 389-93 (1951); Perkins, *The Divorce of Commercial and Investment Banking: A History*, 88 Banking L. J. 483 (1971).

The Glass-Steagall Act recognized and made this authority express and imposed restrictions in this area for those instruments and activities covered by the Act, particularly with respect to bank underwriting and dealing activity. Having imposed restrictions, the Act expressly preserved bank authority to act as agent in the purchase and sale of covered securities.

The Glass-Steagall Act limited and channeled these banking powers with respect to the instruments covered by the Act. But the underlying source of authority remains national banks' "business of banking" charter power. For those activities and instruments not covered by the Glass-Steagall Act, that underlying source also remains and continues without the overlay of Glass-Steagall.

With regard to investment instruments which are not securities covered by the Glass-Steagall Act, the terms of the Act, of course, do not apply. Thus, with respect to such instruments, banks are in the same position as they were with respect to covered securities in the years prior to the Glass-Steagall Act. And, just as buying and selling such securities for customers was within national banks' banking powers antecedent to the Glass-Steagall Act, so buying and selling other financial investment instruments for customers was and is within their banking powers. This power so to act for customers is not limited to customers or transactions which already have another relationship with the bank, just as securities brokerage is not limited merely to accommodating existing bank customers. *See Security Pacific*, 577 F. Supp. at 254-56.

There have been other instances of national banks' investment brokerage authority in recent years. Other examples of investment instruments which are not securities under the Glass-Steagall Act, or at least are not clearly securities under the Act, but which have been considered permissible for national banks to buy and sell for customers include variable rate insurance annuity contracts, real estate loans, equity interests in real estate, options, and futures contracts. As these examples separately arose for consideration from time to time, the Office's discussion focussed on the particular instrument and related aspects of the business of banking in each case. However, the shared and unifying common characteristic of these cases is that each was an example of banks' exercising their generalized investment brokerage authority. *See, e.g.*, OCC Letter No. 331 (April 4, 1985), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,501 (variable annuities); OCC Letter No. 271 (September 21, 1983), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,435 (real estate loans and equity interests); OCC Letter No. 326 (January 17, 1985), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,496 (options); OCC Letter No. 356 (January 7, 1986), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,526 (agricultural and metal futures); OCC Letter No. 357 (February 26, 1986), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,527 (options on financial instruments and on financial futures), OCC Letter No. 365 (August 11, 1986), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,535 (financial futures).

As outlined above, in historical perspective national banks' power to broker financial investment instruments generally developed as, and continues to be, a part of the business of banking. In addition, now that the Glass-Steagall Act has provided expressly for brokerage of those securities covered by the Act, the authority to broker other financial instruments also represents an associated aspect of that express provision. Providing customers with brokerage for other financial instruments is an expected and natural accompaniment to brokerage of securities, and thus it is properly incidental to the express provision.

The power of banks to purchase and sell various investments for their customers is distinct from the power of the bank to invest in various instruments for itself or to play various roles in creating the instruments. Those

powers implicate other considerations in the analysis of banks' authority. For instance, banks act for their customers for the purchase and sale of investments which the bank may not be authorized to purchase for itself, such as equity common stocks. Similarly, banks act as broker in placing real estate equity interests for customers although a national bank's power to own real estate for itself is limited under 12 U.S.C. § 29. Likewise, the authority of banks to invest in partnership interests, annuity contracts, options, or futures may be subject to different considerations than buying and selling such instruments for customers. The Subsidiary's proposed activities involve only activities for customers.

In summary, then, in either case, Subsidiary's proposed activities would be permissible. If the real estate limited partnership interests are securities for the Glass-Steagall Act, then purchase and sale by national banks for customers is expressly provided for within section 16. If the interests are not securities under the Glass-Steagall Act, then that Act does not come into play and the pre-existing authority under national banks' general banking charter applies.

Finally, for similar reasons, the Office's authority to act on the Bank's request would not have been affected by the recently expired securities moratorium enacted as a part of the Competitive Equality Banking Act of 1987, Pub. L. No. 100-86, 101 Stat. 552. In relevant part, section 201(b) of the Act provided that a federal banking agency may not authorize a bank to engage "in any securities activity not legally authorized in writing prior to March 5, 1987," except that the moratorium does not apply to activities in which the bank acts only as agent. If the real estate limited partnership interests in the Bank's proposal are not considered "securities," then that proposal does not involve a "securities activity" subject to the Act. On the other hand, if the interests are securities, the Bank's activities (which, under this assumption, would constitute securities brokerage for customers) would not be affected by the moratorium because it involves only agency activity and it is an activity previously authorized in writing.

Conclusion

Since the proposed Activity is permissible for national banks and their operating subsidiaries, the Bank may proceed with its proposal under 12 C.F.R. §5.34.

J. Michael Shepherd
Senior Deputy Comptroller
for Corporate and Economic Programs

* * *

421—March 14, 1988

Your letter of March 1, 1988, addressed to Mr. Richard Erb of the OCC, was forwarded to me for response. In that letter, you request an opinion on whether *** (Bank) may invest in the Government Securities Clearing Corporation (GSCC), a new subsidiary of National Securities Clearing Corporation.

GSCC was established in 1986 to provide research and development regarding the possibility of establishing facilities for the comparison, netting and settlement of transactions in U.S. government securities. GSCC intends to provide automated comparison and netting services to the government securities market. The Bank proposes to own less than 5 percent of GSCC's Class A shares; the Bank will then be able to participate in the election of GSCC's directors. Acquisition of shares will also provide the Bank a better opportunity to supervise development and implementation of GSCC's intended service. Ownership of these shares is limited to key groups in the government securities business, such as primary dealers, government securities brokers, and clearing agent banks. Shares may only be transferred to one of the aforementioned parties. In addition, GSCC reserves the right to repurchase shares at their original purchase price. Thus, these shares are not being purchased for investment purposes nor is an equity return anticipated. For reasons outlined below, we find that the acquisition of shares in GSCC is permissible under 12 U.S.C. § 24 (Seventh).

The OCC determined in an unpublished letter dated December 19, 1975, that national banks may own stock in the user-owned Depository Trust Company of New York, thus permitting bank participation in a system effecting the transfer of securities by book entry rather than by physical delivery. The motivation to own stock in this clearing corporation was merely to participate in this nationwide system; there was no investment purpose. Congress did not intend for 12 U.S.C. § 24 (Seventh) to preclude this sort of activity, and bank participation was permitted. National bank participation in clearing services has also been allowed in a more recently published letter. *See,* OCC Interpretive Letter No. 380, [Current] Fed Banking L. Rep. (CCH) ¶ 85,604 (December 29, 1986).

The Bank's proposal is analogous to the OCC's earlier letters. GSCC will be user-owned; the Bank will benefit through reduced costs and being able to take advantage of the services offered by the clearing corporation. Finally, there is no investment purpose, and the Bank does not anticipate equity returns from its stock ownership in GSCC. In sum, the proposed acquisition of shares is permissible under 12 U.S.C. § 24 (Seventh).

I trust that this is responsive to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

422—April 11, 1988

Jeffrey S. Lillien, Esq.
Senior Attorney
First National Bank of Chicago
Mail Suite: 0287
Chicago, IL 60670

Dear Mr. Lillien:

This letter responds to your July 16, 1987, notification to this Office that First Chicago Futures, Inc. (the Subsidiary), an operating subsidiary of the First National Bank of Chicago (the Bank), proposes to undertake an arbitrage and market maker operation in certain interest-rate-denominated instruments. The Subsidiary would purchase and sell, for its own account, instruments related to Treasury bills, Treasury notes, GNMA obligations, certificates of deposit, Eurodollar time deposits, and to other interest-rate-denominated instruments in which the Bank is a cash-market dealer. The Subsidiary would make such purchases and sales in the spot market, forward market, and various futures and options markets, including over-the-counter options markets, to take advantage of arbitrage opportunities.

The Subsidiary proposes also to become a floor trader in interest-rate-denominated futures and options on several commodity exchanges (*e.g.*, Chicago Mercantile Exchange (CME), Chicago Board of Trade (CBOT), London International Financial Futures Exchange (LIFFE), and Singapore International Monetary Exchange (SIMEX)) and to become a market maker in interest-rate-denominated options on various securities exchanges (*e.g.*, Philadelphia Stock Exchange (PHLX) and Chicago Board of Options Exchange (CBOE)). The Subsidiary is currently a member of CBOT, CME, LIFFE, PHLX, and CBOE. One First Chicago Futures Pte. Ltd., a 35 percent-owned Edge Act subsidiary of the Bank, is currently a member of SIMEX. The positions that would result from floor-trading and market-making activities would be coordinated with the arbitrage operation, where appropriate, or would be fully hedged. The Subsidiary proposes to conduct the proposed activities at the Subsidiary's offices in Chicago and at the various exchanges.

We conclude that the activities the bank proposes are permissible under federal banking law and prior OCC precedent. First, a national bank is authorized under 12 U.S.C. § 24 (Seventh) to purchase and sell the instruments that underlie the forwards, futures, and options which the Subsidiary wishes to purchase and sell for its own account. That statute authorizes a national bank to engage in "discounting and negotiating . . . evidences of debt," and section also empowers a national bank to deal in, underwrite, or purchase for the bank's own account, without limitation, U.S. or GNMA obligations.

Where, as here, a bank may purchase and sell the underlying instruments for its own account, this Office has permitted the bank also to use the related forwards, futures, and options contracts for hedging, subject to certain conditions. *See* Letter No. 260 of Brian W. Smith, Chief Counsel (June 27, 1983) (reprinted in [1983-1984 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,424); Banking Circular No. 79 (3rd. Rev. 1983).

More recently, this Office permitted a national bank to engage also in arbitrage activities, using financial futures contracts, where the bank was already an active and substantial participant in the cash markets for the underlying instruments, and where the bank had intended to limit itself to futures contracts related to instruments in which the bank could underwrite and deal. *See* Letter from Charles M. Horn, Assistant Director, Securities & Corporate Practices (Aug. 8, 1986); Letter from Michael Patriarca, Deputy Comptroller for Multinational Banking (Aug. 8, 1986). We conditioned our approval upon the following:

(1) nonhedging uses of such contracts would be undertaken only by dealer units;

(2) nonhedging activities would be limited to contracts on instruments in which the bank is authorized to and does in fact deal;

(3) futures and options contract positions used for nonhedging purposes would be limited to amounts that do not exceed trade date position limits on related cash instruments;

(4) aggregate bankwide positions in any futures or options contract would be limited to a reasonable percentage of the total "open interest" in a contract month, consistent with safety and soundness considerations;

(5) the board of directors would approve written policies that specifically address nonhedging strategies; and

(6) controls, limits, and accounting procedures discussed in Banking Circular No. 79 would be established, with appropriate tests to evaluate the program on an ongoing basis.

This Office also has approved exchange membership, floor trading, and market making activities, related to foreign exchange, in our November 7, 1986, no objection letter to the Subsidiary. This Office indicated that it would not object to a proposal by the Subsidiary to become a member of an options exchange and to act as a market maker and broker dealer of exchange-traded options on foreign currencies so that it might execute trades for its own account, for the account of the Bank, and for the accounts of customers. This approval was premised upon the Subsidiary's assurance that the exchanges would not look beyond the capital of the Subsidiary (*i.e.*, to the Bank) to satisfy any liability arising from exchange membership. We have also approved exchange membership for an operating subsidiary of another national bank for the purpose of purchasing and selling U.S. government securities. *See* Letter of Judith A. Walter, Senior Deputy Comptroller for National Operations (May 21, 1986).

Thus, the proposed activities are substantially within the scope of prior OCC approvals. Because the Bank may purchase and sell the underlying obligations, it may, under OCC Interpretive Letter No. 260, *supra,* and Banking Circular No. 79, use related options, futures, and forwards for hedging, subject to the conditions contained in Banking Circular No. 79. Also, because the Bank is already a substantial participant in the cash market for the underlying instruments, the Bank may, applying the reasoning of the letters of August 8, 1986, *supra*, engage in arbitrage activities, subject to the restrictions contained in those letters. The Bank may, under the reasoning of our prior approval to the Subsidiary, become a member of various commodities and securities exchanges, subject to the conditions expressed in that prior approval.

Accordingly, this Office does not object to the proposed expansion of the Subsidiary's activities, subject to the supervisory restrictions listed in our previous no objection letters (*i.e.*, the supervisory requirements for arbitrage activities and the restriction of liability of the parent bank in connection with membership on an exchange) and to a limit on the aggregate amount of the Bank's investment in, and loans or other extensions of credit to, the Subsidiary, of 15 percent of the Bank's unimpaired capital and surplus, at the time of the investment or loan of any funds. Our position is based upon the representations made in your submissions to this Office. Different facts or circumstances may affect the position taken. In addition, our view is based on current law and may be subject to revision as future developments warrant. We further reserve the right to modify the view expressed herein or provide additional comments in the future.

J. Michael Shepherd
Senior Deputy Comptroller
for Corporate and Economic Programs

* * *

423—April 11, 1988

David L. Zoeller, Esq.
Senior Vice President,
Secretary, and General Counsel
Merchants National Bank & Trust Company
One Merchants Plaza
Indianapolis, IN 60605

Dear Mr. Zoeller:

This responds to your notification, pursuant to 12 C.F.R. § 5.34, of a proposal by Merchants National Bank & Trust Company (the Bank) to form an operating subsidiary, Merchants Realty & Investment Corporation (the Subsidiary), to operate as the managing general partner of a Delaware limited partnership tentatively named MBS Insured Mortgage Investments, L.P. (the Partnership). For the reasons set forth below, the Bank may establish and operate the proposed operating subsidiary.

The Proposal

According to your notification dated June 5, 1987, and your subsequent letter dated October 7, 1987, you propose to organize the Subsidiary as an Indiana corporation. The Subsidiary will act as sole managing general partner in the Partnership. As such, it will conduct all day-to-day operations and business affairs of the Partnership from the main office of the Bank. The Bank proposes to capitalize the Subsidiary adequately and to operate it in a safe and sound manner.

Barrett & Stokely Advisors, Inc., an Indiana corporation to be formed, will be the only other general partner in the Partnership. Barrett & Stokely Advisors, Inc. (the Other General Partner) will not be a depository institution nor will it be affiliated with the Bank. The primary role of the Other General Partner will be to evaluate potential Partnership investments as agent for the Partnership. For the past 5 years, the principal business of the proposed principals of the Other General Partner has been acquiring, owning, and managing multi-family properties.

The Partnership will be capitalized at a level of between $10 million and $200 million. The initial capital investment, other than that of the general partners, will be raised in a registered public offering, described below. Each general partner will hold a 1 percent general partner's interest in the Partnership.

The Partnership agreement will state that the Partnership will be subject to federal banking laws and regulations applicable to national banks and will restrict the activities of the Partnership to those activities in which national banks may engage. Furthermore, the Partnership agreement will acknowledge that the Partnership is subject

to regulation, supervision, and examination by the OCC and that the OCC may limit its activities. In addition, the Partnership agreement will provide that changes in the Subsidiary's proportionate interest in the Partnership, changes in the management and control provisions of the Partnership agreement, and proposed changes in the identity of the Other General Partner will be considered new activities of the Subsidiary for purposes of the notification requirements of 12 C.F.R. § 5.34(d)(1).

The Partnership will conduct its activities at the offices of the Subsidiary (to be located at the main office of the Bank), at the offices of the mortgage-banking subsidiary (the Mortgage Company) which is wholly owned by the Bank's parent holding company, and at the offices of the Other General Partner.

The proposed purpose and business of the Partnership is to invest in real estate mortgage-related assets, particularly certain mortgage loans originated by the Mortgage Company. These will include, principally, "participating" mortgage investments representing FHA-insured first-mortgage loans from the acquisition or refinancing of multi-family housing properties.

A "participating" mortgage investment will contain (1) a fixed component consisting of a mortgage-backed security, guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA), in the principal amount of the FHA-insured loan and bearing interest at the stated rate of the underlying loan minus certain established fees, and (2) a contingent component providing for payments of contingent interest from operations and from any residual value realized upon the sale or refinancing of the property. The Subsidiary expects that some "participating" mortgage investments will also include a direct or indirect subordinate loan from the Partnership, on terms that provide for repayment of the principal amount of the loan, payment of interest on the loan at a stated rate, and payment of additional, contingent interest; these latter loans will not be insured by the FHA or guaranteed by GNMA.

The Bank expects that the Partnership will enter into an agreement with the Mortgage Company under which the Partnership will have the option to evaluate as potential mortgage investments certain prospective multi-family housing loans considered by the Mortgage Company. Under the expected agreement, the Partnership will make a one-time payment to the Mortgage Company; the Mortgage Company will also receive origination fees, insurance premiums, and servicing fees from the individual borrowers of the mortgage loans.

The Bank, the Subsidiary, and the Partnership will make no commitment to purchase mortgage-backed securities or other mortgage-related assets originated by the Mortgage Company. Rather, the Partnership will base its decision to purchase any particular loan originated by the Mortgage Company, upon an evaluation by the Other General Partner of the creditworthiness of the mortgagor(s) and the possible appreciation of, and potential increased income to be derived from, the income-producing property securing the first-mortgage loan. The Other General Partner will make its evaluation at the inception of the loan, on behalf of the Partnership, and pursuant to the terms of an asset analysis and management agreement by and between the Partnership and the Other General Partner. All of the final investment decisions will depend on the unanimous agreement of the investment committee, which will consist of five members: three appointed by the Subsidiary and two by the Other General Partner.

The Partnership expects to invest also in mortgage-backed securities or participation certificates representing one or more multi-family or single-family-housing mortgage loans that are guaranteed as to timely payment of principal and interest by GNMA or guaranteed as to payment of principal and interest by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC). The Partnership proposes to purchase any such mortgage-backed securities or participation certificates on the open market from parties unaffiliated with either of the general partners or the Partnership.

The Bank will insulate itself from the Partnership and its activities as follows: (1) The Bank will not obtain an ownership interest or security interest in Partnership assets or take such assets as collateral for any loans made by the Bank; (2) the Bank will not participate in the placement or distribution of Partnership units; (3) the Bank will not purchase any Limited Partnership Units; (4) the Bank will not make any commitment to purchase Mortgage Company loans not sold to the Partnership; (5) the Bank will not purchase Limited Partnership units for fiduciary or managed accounts unless specifically directed to do so by a person unaffiliated with the Bank, holding sole investment power over such accounts; (6) the Bank's credit activities with the Other General Partner and its affiliates, the limited partners, and parties to mortgage assets purchased by the Partnership will be independent of those parties' relationship with the Partnership; (7) parties to mortgage investments of the Partnership or a limited partner will not be required to establish a banking relationship with the Bank; (8) the Bank will make credit decisions with respect to any party to mortgage investments of the Partnership or any limited partner, independent from Partnership activities and pursuant to the Bank's customary lending practices; and (9) the Bank will not extend credit to limited partners to finance the acquisition of Limited Partnership Units. Furthermore, the Bank

will not make any representation as to, and will specifically disclaim any responsibility for, the financial position and future prospects of the Partnership. Neither the Bank make nor the Subsidiary will make any express or implied warranty as to the creditworthiness of any borrower of the mortgage loans underlying the Partnership's mortgage loans underlying the Partnership's mortgage investments. Neither will the bank make any warranties or representations as to the accuracy or adequacy of the financial information furnished or the results to be obtained from Partnership investments. Furthermore, neither the Bank nor the Subsidiary will make any representation as to the anticipated future appreciation and ultimate rate of return on the Limited Partnership Units. Finally, the Bank and its affiliates will limit their total commitment to the Partnership, including Partnership contributions and extensions of credit (both direct and indirect) to 5 percent of the Bank's primary capital.

Limited Partnership Units will be distributed in a public offering underwritten by an unaffilitated investment bank, will be registgered with the Securities and Exchange Commission, and will comply with applicable Blue Sky laws. The Partnership will furnish the OCC copies of its registration and offering material filed with the Securities and Exchange Commission. Registration and offering material will reflect that the Partnership is subject to federal banking laws and regulations.

Limited Partnership Units will be offered in denominations of $20 to $100, with a $5000 minimum investment for individuals and a $2000 minimum investment for IRAs and Keogh plans. The Units will be evidenced by depository receipts. The Partnership will hold proceeds from the sale of Limited Partnership Units under an escrow arrangement so that, should the response to the offering be insufficient, the partners may return the money to the investors. The general partners will be under no obligation to repurchase Limited Participation Units.

The Bank expects that the Partnership will invest its funds within the first 2 years. The Partnership agreement will provide that, during this period, the Subsidiary will invest Partnership assets not held in mortgage investments, solely in obligations in which national banks may invest.

In the event that the Partnership determines that it needs to raise additional funds to finance the same types of business activities in which the Partnership proposes to engage, the Partnership contemplates that it may issue and sell additional Limited Partnership Units. Alternatively, if business conditions warrant, the general partners contemplate that they may form a new partnership in the same manner as that here proposed.

Discussion

We must first determine whether the activities proposed for the Subsidiary, by way of a limited partnership, are permissible activities for a national bank, because an operating subsidiary of a national bank may perform only those activities that a national bank is permitted to perform. *See* 12 C.F.R. § 5.34. The activities that the Bank proposes for the Subsidiary are (1) purchasing at their inception and subsequently reselling "participating" mortgage loans originated by an affiliate, (2) purchasing on the open market and reselling mortgage-backed securities, and (3) making and selling "participating" mortgage loans. Sales of the real estate mortgage-related assets will be accomplished in the form of a registered public offering of Limited Partnership Units by an unaffiliated investment bank.

First, we conclude that the Partnership proposal to purchase at their inception and subsequently resell "participating" mortgage loans originated by an affiliate is a permissible activity for national banks and their operating subsidiaries. Federal banking law grants national banks broad powers to purchase and sell such mortgage-related assets and to make loans secured by real estate. First, in language unaltered since the enactment of the National Bank Act of 1864, national banks are granted express authority to "carry on the business of banking . . . by . . . negotiating promissory notes, . . . and other evidences of debt." 12 U.S.C. § 24 (Seventh). The term "negotiating" authorizes a bank's transfer of its notes or other evidences of debt. *See Danforth v. National State Bank,* 48 F. 271 (3rd Cir. 1891); *First National Bank v. Elmer,* 278 S.W. 826 (Mo. App. 1926); *see also First National Bank v. Hartford,* 273 U.S. 548, 560 (1927) (Supreme Court recognized that the national bank had authority to sell mortgages and other evidences of debt.)

Also, national banks are expressly authorized under 12 U.S.C. § 371(a) to

> make, arrange, purchase or sell loans or extensions of credit secured by liens on interests in real estate, subject to such terms, conditions, and limitations as may be prescribed by the Comptroller of the Currency by order, rule, or regulation.

In addition, this Office has looked to the language of Section 21 of the Glass-Steagall Act as further evidence of a congressional intent to permit a national bank to purchase and sell real estate-related assets. Section 21(a)(1), codified at 12 U.S.C. § 378(a)(1), prohibits firms in the business of receiving deposits from simultaneously engaging in the business of issuing, underwriting, selling, or distributing securities. A proviso in the section indicates, however, "[t]hat nothing in this paragraph shall be construed as affecting in any way such right as any bank . may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans in real estate." We have looked to the language of the proviso

to support permitting national banks to sell participations in a pool of the bank's mortgages. *See, e.g.*, OCC Interpretive Letter No. 257, *reprinted in* [1983-84 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,421, OCC Press Release and Letter from Robert Bloom, Acting Comptroller of the Currency, to Bank of America, N.S.& T.A., *reprinted in* [1973-78 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 97,093 (Mar. 30, 1977) (Bank of America Letter)

Our conclusion that this activity is permissible is not affected by the fact that the loans purchased from the affiliate are "participating" loans, where a portion of the interest, but not the principal, is contingent upon the success of the borrower's enterprise. A national bank's broad authority to purchase and sell mortgage-related assets includes also the authority to purchase and sell "participating" mortgage loans where, as here, the payment of the loan principal is not conditioned upon the success of the underlying enterprise. This is evident from OCC Interpretive Ruling 7.7312 (12 C.F.R. § 7.7312) which provides that

> [a] national bank may take as consideration for a loan a share in the profit, income or earnings from a business enterprise of a borrower. Such share may be in addition to or in lieu of interest. The borrower's obligation to repay principal, however, shall not be conditioned upon the profit, income or earnings of the business enterprise.

The Partnership also proposes to purchase on the open market and subsequently resell Mortgage-Backed Securities (MBS). MBS are certificates representing undivided interests in pools of housing mortgages that are guaranteed as to timely payment of principal and interest by GNMA or guaranteed as to payment of principal and interest by FNMA or FHLMC. As such, MBS are instruments that a national bank and its operating subsidiaries may purchase and sell under the authorities cited above (*i.e.*, 12 U.S.C. §§ 24(Seventh), 371(a), 378(a)(1), etc.). Furthermore, this Office has ruled, in OCC Interpretive Letter No. 362, *reprinted in,* [1985-87 Transfer Binder] Fed. Banking L. Rep. ¶ 85,532, that MBS are expressly exempt from the restrictions of Section 16 of the Glass-Steagall Act. Section 16 provides as follows:

> The limitations and restrictions [of Section 16 of the Glass-Steagall Act] as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to . . . obligations which are insured by the Secretary of Housing and Urban Development under title XI of the National Housing Act or obligations which are insured by the Secretary of Housing and Urban Development . . . pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States, or obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association, or mortgages, obligations or other securities which are or ever have been sold by the Federal Home Loan Mortgage Corporation pursuant to section 305 or section 306 of the Federal Home Loan Mortgage Corporation Act . . . 12 U.S.C. § 24 (Seventh).

Accordingly, the Partnership may purchase and sell MBS.

The Partnership also proposes to make and subsequently resell real estate loans. This is clearly a permissible activity for a national bank, *see* 12 U.S.C. §§ 24(Seventh), 371(a)(1); Bank of America Letter, *supra*, even where the loan is a "participating" one, *see* OCC Interpretive Ruling 7.7312, 12 C.F.R. § 7.7312.

The Partnership proposes to accomplish the sales of mortgage-related assets by selling Limited Partnership Units in a public offering underwritten by an unaffiliated investment bank, By selling Limited Partnership Units, the Partnership is, in substance, merely selling participations in the mortgage-related assets, an activity long-accepted for national banks. *See* Bank of America Letter, *supra*. Also, the Bank's proposal to sell Limited Partnership Units closely resembles other national bank transactions involving the sale of interests in mortgage assets, or the pledge of those assets as collateral to support a borrowing, which this Office has approved since the mid-1970's. This Office has permitted several national banks, beginning at least with Bank of America in 1977, to sell participations in pools of their conventional mortgages. *See* Bank of America Letter, *supra*; *see also* Letter of Robert L. Clarke, Comptroller of the Currency, to Security Pacific National Bank, *reprinted in* [Current] Fed. Banking L. Rep. (CCH) ¶ 86,994 ("Security Pacific Letter"); OCC Interpretive Letter No. 92, *reprinted in* [1978-79 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,167; OCC Interpretive Letter No. 69, *reprinted in* [1978-79 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,144; OCC Interpretive Letter No. 41, *reprinted in* [1978-79 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,116; OCC Interpretive Letter No. 25, *reprinted in* [1978-79 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,100.

Finally, the subsidiary may sell the mortgage-related assets because the power to sell or transfer interest in one's lawfully acquired assets is simply an incident of ownership. As with any other corporation, in order to operate effectively, a bank must be able to sell its assets, or interests therein, as economic conditions or safety and soundness considerations warrant. *See* Security Pacific Letter, *supra*.

We also conclude that a national bank may conduct the above activities by way of an operating subsidiary acting as general partner in a limited partnership; the fact that this may seem to be a "new way" of conducting an old practice need not affect our conclusion. *See M & M Leasing Corp. v. Seattle First National Bank*, 563 F.2d 1377, 1382 (9th Cir. 1977), *cert. denied,* 436 U.S. 956 (1978) (national banking law "must be construed so as to permit the use of new ways of conducting the very old business of banking"). This Office has previously permitted a national bank, through an operating subsidiary, to act as a general partner with another general partner. *See* OCC Interpretive Letter No. 381, *reprinted in* [Current] Fed. Banking L. Rep. ¶ 85,605; OCC Interpretive Letter No. 382, *reprinted in* [Current] Fed. Banking L. Rep. ¶ 85,606; OCC Interpretive Letter No. 369 (Sept. 25, 1986), *reprinted in* [1985-87 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,539; OCC Interpretive Letter No. 346 (July 31, 1985), *reprinted in* [1985-87 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,516; OCC Interpretive Letter No. 289 (May 15, 1984), *reprinted in* [1985-87 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,453; *see also* OCC Interpretive Letter No. 355 (Dec. 10, 1985), *reprinted in* [1985-87 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,525. The features of the proposed Partnership, while not identical to those in the partnerships reviewed in the Office's prior letters, are consistent with the general principles contained in those letters: From the purpose and characteristics of the Partnership and the Bank's manner of active participation in it, it appears that the Bank, through its subsidiary, is entering into the Partnership as a means of developing and performing its lawful banking activities, not merely as an investment.

The proposed Partnership is also consistent with the principal conditions that this Office has cited in prior letters dealing with partnership activities of national bank operating subsidiaries. The Bank will attempt to limit its liability by adequately capitalizing the Subsidiary and by further insulating the Bank from the Partnership, as described above. The Partnership agreement will define and limit the business activities of the Partnership to activities consistent with the powers of national banks and will recognize that the Partnership is subject to OCC regulation, supervision, and examination. Also, the registration and offering materials prepared in connection with the sale of Limited Partnership Units will state that the Partnership is subject to applicable provisions of federal banking laws and regulations. In addition, you have assured us that the Subsidiary will effectively possess veto power over the activities of the Partnership, notwithstanding its having only a 1 percent share, because it is the sole managing partner and because the Partnership may make only investments that the five-member investment committee, which contains three members appointed by the Subsidiary, has unanimously approved. Finally, the Bank and its affiliates will limit their total commitment to the Partnership, including Partnership contributions and extensions of credit (both direct and indirect) to 5 percent of the bank's primary capital.

In addition to the above, the proposal raises a potential branching issue. The proposal suggests that the Partnership will, itself, occasionally make loans, and a national bank may, of course, only make loans at its main office or at a branch location. *See* 12 U.S.C. §§ 36, 81. Accordingly, the Subsidiary and the Partnership may make loans only at such locations. *See* OCC Interpretive Ruling 7.7380, 12 C.F.R. § 7.7380. (indicating loan-related activities that may be performed at other than the main office or a branch location).

The proposal also describes an arrangement whereby the Partnership will purchase assets from the Mortgage Company; this is a transaction with an affiliate which could be subject to the restrictions of 12 U.S.C. § 371c. However, to the extent that the Partnership performs its own, independent evaluation of each loan, performs the evaluation at the inception of the loan, does not have any commitment to purchase the loan, and is not the sole source of funding for the Mortgage Company, the arrangement is within the scope of 12 C.F.R. § 250.250 and is not, therefore, a "covered transaction" subject to the restrictions of 12 U.S.C. § 371c. The Bank indicates that the proposed transactions will fall within the scope of 12 C.F.R § 250.250.

There is also the question of to what extent the mortgage loans underlying the mortgage-related investments should be attributed to the Bank for purposes of the legal lending limits under 12 U.S.C. § 84 and 12 C.F.R. Part 32. The substance of the sale of Limited Partnership Units is a sale of loan participations. To the extent that such sales conform to the OCC Interpretation at 12 C.F.R § 32.107, the participated portion of those loans will not be attributed to the Bank. Also, some portion of the underlying loans would be expected to be backed, to at least some extent, by U.S. Government entities (*e.g.*, FHA, FNMA, FHLMC, etc.); the guaranteed portions of those loans will not be allocated to the Bank under 12 U.S.C. § 84(c)(5) and 12 C.F.R. § 32.6(e). Accordingly, the portion of the underlying loans attributed to the Bank would be the Bank's pro rata share (in essence, the unparticipated share) of (1) loans that are not backed by a U.S. governmental agency; (2) that portion of the agency-backed loans that is not so backed; and (3) direct loans from the Partnership. The Bank has indicated that it will comply with the requirements of 12 U.S.C. § 84

Accordingly, this Office does not object to the proposal as described. As will be provided in the Partnership agreement, changes in the Subsidiary's proportionate interest in the Partnership, changes in the management and control provisions or the Partnership agreement, and

proposed changes in the identity of the Other General Partner will be considered new activities of the Subsidiary for purposes of the notification requirement of 12 C.F.R. § 5.34(d)(1). The Subsidiary need not notify this Office if the Partnership intends to sell additional Limited Partnership Units or if the Subsidiary intends to establish an additional limited partnership, with the Other General Partner, organized as described above and conducting the same activities described above.

This position is, of course, based upon the representations made in your submissions to this Office. Different facts or circumstances may lead to another position. Furthermore, our view is based upon current law and may be subject to revision as future developments warrant. We reserve the right to modify the views expressed herein or to provide additonal comments in the future. Finally, we suggest that you contact our Office of Bank Accounting at (202) 447-0471, to discuss the appropriate regulatory accounting treatment of the various aspects of your proposal.

J. Michael Shepherd
Senior Deputy Comptroller
Corporate & Economic Programs

* * *

424—April 12, 1988

April 12, 1988

John R. Tilton
Senior Vice President
American National Bank
and Trust Co. of Chicago
33 North La Salle Street
Chicago, Illinois 60690

Dear Mr. Tilton:

This is in response to your letter of February 1, 1988. In it, you provided notification of your intention to establisth an operating subsidiary, pursuant to our regulations at 12 C.F.R. § 5.34. On February 29, 1988, you were notified that we were extending the review period for this notification.

American National Bank and Trust Company of Chicago (the Bank) is a national bank with trust powers, pursuant to 12 U.S.C. § 92a. You plan to transfer certain trust activities presently performed by the Bank's Investment Management Group to a new operating subsidiary to be called American National Investment Management and Trust Company (the Subsidiary). The Subsidiary will be chartered as a trust company under state law and will not accept demand deposits, make commercial loans, or be insured by the Federal Deposit Insurance Corporation. It will therefore not be a "bank" within the meaning of the Bank Holding Company Act, 12 U.S.C. § 1841(c). Initially, the Subsidiary's only office will be located in the Bank's present main office, although other offices may be added later. The activities to be performed by the Subsidiary are as follows:

1. Investment advisor to institutions:
   a. Unions
   b. Not-for-profit corporations
   c. Employee benefit plans
   d. Corporate treasuries
2. Investment manager of the Bank's common trust funds:
   a. Personal trust
   b. Qualified plans
   c. Not-for-profit corporations
3. Investment manager of individual portfolios for institutions:
   a. BondPlus for financial institutions (including the Bank)
   b. Corporate treasuries
   c. Not-for-profit corporations
   d. Unions
   e. Qualified plans
4. Purchasing and selling securities for the accounts of and at the direction of customers.
5. Future and option counselling.
6. Back office support:
   a. Administrative services for employee benefit plans
   b. Investment services accounting for commingled common funds

Under 18 U.S.C. § 709, it is a crime to use the word "national" as part of the business or firm name of any entity engaged in the banking or trust business unless such use is permitted by the federal law. The only circumstance where such use is permitted is in title of national banks. *See* 12 U.S.C. §§ 22, 30, 35; *Byers v. United States*, 175 F.2d 654, 656 (10th Cir. 1949). Since the Subsidiary will be a state-chartered trust company, the use of "national" in its title is not permitted.

With the exception of the proposed name, we have not objection to the Bank's plan to establish the Subsidiary as described above. The activities that the Subsidiary will

engage in are activities that the Bank is presently performing itself pursuant to its general powers under 12 U.S.C. § 24(7) and its fiduciary powers under 12 U.S.C. § 92a. National banks may choose to perform activities which are part of or incidental to banking by means of an operating subsidiary. 12 C.F.R. § 5.34. Moreover, your proposal appears to be consistent with earlier trust company subsidiaries which we have approved. *Comptroller's Handbook for National Trust Examiners*, Precedents & Opinions 9.1110; two letters of Judith A. Walter, Senior Deputy Comptroller for National Operations, July 18, 1986 (unpublished, contained in Legal Advisory Services Division 12 U.S.C. § 24(7)-[22B] precedent files). Of course, the Subsidiary will be subject to examination and supervision by the Office to the same extent as the Bank. 12 C.F.R § 5.34(d)(3).

This approval is based on the proposal described in your letter of February 1 and subsequent telephone conversations with your personnel. Any material change in activities from those described will necessitate an additional notification. We express no opinion as to what other regulatory approvals, *e.g.*, from the Securities and Exchange Commission, may be required.

Emory W. Rushton
Deputy Comptroller
for Multinational Banking

* * *

425—February 25, 1988

Roberta K. Reed
Assistant Vice President & Trust Officer
Associate Trust Counsel
Seafirst Bank
701 Fifth Avenue
P.O. Box 3586
Seattle, Washington 98124

Re: Seattle-First National Bank, Seattle, Washington (Bank)

Dear Ms. Reed:

This is in response to your September 3, 1987 and subsequent letters regarding the Bank's proposal to establish a collective investment trust (Trust) for the collective investment of individual retirement account (IRA) trust assets exempt from taxation under Section 408 of the Internal Revenue Code of 1986, as amended (IRC). The collective investment trust will also include single or commingled pension or profit-sharing trusts maintained in conformity with Section 401(a) and exempt from taxation under Section 501(a) of the IRC. The Bank's plan is identical in all material respects with two exceptions noted below, to the collective investment trusts approved by the OCC in the applications of Chase Manhattan Bank, N.A. (November 14, 1986) (Chase Manhattan Approval) and First Fidelity Bank, N.A. (March 19, 1987) (First Fidelity Approval). Furthermore, but for the addition of single or commingled pension or profit-sharing trust funds, the Bank's plan is similar in all material respects to other collective IRA trusts previously approved by the OCC. *See Decision of the Comptroller of the Currency on the Application by Citibank, N.A., Pursuant to 12 C.F.R § 9.18(c)(5) to Establish Common Trust Funds for the Collective Investment of Individual Retirement Account Trusts Exempt from Taxation under Section 408 of the Internal Revenue Code of 1954* (October 21, 1982) (Citibank Decision); *Decision of the Office of Comptroller of the Currency on the Application by Wells Fargo Bank, N.A., to Establish a Common Trust Fund for the Collective Investment of Individual Retirement Account Trust Assets Exempt from Taxation under Section 408(a) of the Internal Revenue Code of 1954, as Amended* (January 27, 1984) (Wells Fargo Decision); and *Decision of the Comptroller of the Currency on the Application of Connecticut Bank and Trust Company, N.A., to Establish a Common Trust Fund for the Collective Investment of Individual Retirement Account Trust Assets Exempt from Taxation under Section 408(a) of the Internal Revenue Code of 1954, as Amended* (February 7, 1985) (Connecticut Bank and Trust Decision). These decisions have been upheld in opinions by the Courts of Appeals for the D.C., Ninth and Second Circuits, respectively (collectively, the IRA Cases).[1] The OCC is of the view that the activities described in your letters and attachments thereto constitute lawful bank fiduciary activities which comply with the requirements of 12 C.F.R. Part 9 and are not inconsistent with the requirements of the Glass-Steagall Act, specifically 12 U.S.C. §§ 24 (Seventh), 377, 378 and 78.

Our conclusion regarding the permissibility of the fiduciary services proposed to be offered by the Bank is supported by the nature of the relationships between the Bank as trustee of the Trust, and the Bank as trustee of the individual trusts participating in the Trust. Although the statutes of the state of Washington do not define the elements required to create a trust and Washington courts have not delineated the elements of a common law trust, Washington courts have consistently relied on the Restatement (Second) Trusts (1959) to decide issues involving

[1] *Investment Company Institute v. Conover*, 790 F.2d 925 (D.C. Cir. 1986); *Investment Company Institute v. Clarke*, 793 F.2d 220 (9th Cir. 1986); *Investment Company Institute v. Clarke*, 789 F.2d 175 (2nd Cir. 1986) (per curiam). In December 1986, the United States Supreme Court denied certiorari in all three cases. *See Investment Company Institute v. Clarke*, U.S., 107 S.Ct. 421, 422 (1986).

common law trusts *See e.g. Fred Hutchinson Cancer Research Center v. Holman*, 732 P.2d 974 (Wash. 1987); *Retail Store Employees Union v. Washington Surveying and Rating Bureau* 558 P.2d 215, 220 (Wash. 1976); *In Re Estate of Brooks*, 579 P.2d 1351, 1353 (Wash. Ct. App. 1978) Under the Restatement, the elements necessary for the creation of a valid trust include: (a) an intervivos transfer of property, (b) the intention of the owner that the transferred property be held in trust, (c) a designated trustee, and (d) a designated beneficiary. Restatement (Second) Trusts § 17(b) (1959). The Bank has provided the opinion of its counsel that the Trust agreement and participating trust agreements contain these elements. Because the trust agreement and participating trust agreements contain the elements required under Washington law, we are satisfied as to the validity of the Trust and the participating trusts. Accordingly, under the terms of 12 U.S.C. § 92a, the Bank is empowered to offer the fiduciary services represented by the Trust.

The OCC has carefully considered the features of the Trust and the participating trusts. In two respects, the Trusts raises questions concerning its conformance to the requirements of 12 C.F.R. § 9.18(b). The pertinent provisions require the outside auditors to be responsible solely to the Bank's Board of Directors and require the Bank to exercise exclusive management over its collective investment funds. *See* 12 C.F.R. § 9.18(b)(5)(i), 9.18(b)(12). Both provisions may raise questions with respect to the Bank's Trust program which arise out of the Bank's decision to register the Trust with the Securities and Exchange Commission (SEC) as an "Investment company" under the Investment Company Act of 1940, 15 U.S.C. §§ 80a-1 *et seq*. However, the decisions of the OCC which were upheld in the above-cited IRA Cases addressed these same questions and concluded that the respective banks were permitted to operate their trust plans in compliance with 12 C.F.R. § 9.18.

In the plan proposed by the Bank (and the plans at issue in the Chase Manhattan Approval and the First Fidelity Approval), the Bank would commingle in its collective investment trust IRA trust funds with single or commingled pension or profit-sharing trusts (Section 401 trust funds). The collective investment of Section 401 trust funds is a traditional banking service which banks have long performed The exemption from taxation which IRC Sections 401(a) and 501(a) provide is available only to "qualified trusts" and, accordingly, contemplates the existence of a true fiduciary purpose for all such trusts. Thus, the collective investment of Section 401 trusts funds involves no less a true fiduciary purpose that the collective investment of IRA trust assets. This additional activity will not jeopardize the exemption from federal taxation separately accorded each type of trust fund *See* IRC Section 408(e)(6) and Rev. Rul. 66-297 The Trust interests will be registered with the SEC under the Securities Act of 1933 and the Investment Company Act of 1940, regardless of those exemptions from registration which normally are available to collective investment funds for the collective investment of Section 401 trust funds.

It is noted that the proposed Trust differs in three further respects from those approved in the above-cited cases. First, the Bank, as trustee, proposes to charge the Trust an ongoing fee that for certain participating trusts may not be consistent with the fee requirements of 12 C.F.R. § 9.18(b)(12). Second, the Bank proposes to allow its affiliate, Bank of America, National Trust & Savings Association, San Francisco, California (Bank of America), to display copies of the Declaration of Trust, Trust Agreement, and Prospectus for the Trust in its branch lobbies. Third, under the Investment Management Agreement and pursuant to related representations you have made on the Bank's behalf, Trust purchases of securities from issuers that have banking relationships with the Bank are restricted to comport with the requirements of 12 C.F.R. § 9.12(a). As discussed below, we do not view these differences as a bar to the OCC's approval of the Trust.

Fee for Participating Trusts

The Bank plans to charge the Trust an ongoing fee based on an annualized percentage of net assets. In the case of certain participating trusts, this fee may not comport with the requirements of 12 C.F.R. § 9.18(b)(12), which states:

> The bank may charge a fee for the management of the collective investment fund provided that the fractional part of such fee proportionate to the interest of each participant shall not, when added to any other compensations charged by a bank to a participant, exceed the total amount of compensations which would have been charged to said participant if no assets of said participant had been invested in participation in the fund.

You have represented that, in general, compliance with this provision does not present a problem. However, you have noted the possibility that participants in certain bank managed IRA trusts which are exempt from taxation under Section 408 of the IRC, as well as pension or profit-sharing trusts maintained in conformity with Section 401 of the IRC, might be able to obtain management services for a fee in an amount less than that which the Bank proposes to charge, a situation which may be deemed to present a potential violation of the above regulation.

With respect to the proposed fee, the Bank as Trustee has made the following representations:

1. The management fee will be charged for the provision of services which are usually and customarily rendered by a trustee to a collective fund.

2. Except insofar as discussed herein, the fees and expenses to be charged to the common trust fund will be in accordance with the rules and regulations of the OCC pertaining to collective investment funds and the interpretations issued thereunder.

3. All employee benefit accounts participating in the Trust will specifically incorporate by reference the terms of the Trust.

4. The governing documents of all participating accounts will specifically authorize the investment in the Trust and Trustee's fee set forth above.

5. Only accounts directed by the participant will participate in the Trust.

6. All material terms affecting the rights of the participants will be accurately and fully disclosed in the Declaration of Trust.

7. The aggregate fee will be disclosed in the semi-annual financial statements for the Trust. In addition, sufficient information will be disclosed in each participant's quarterly account statement for the participant to calculate the fee charged to the individual account.

Based upon the above representations, which will ensure, among other things, that Trust participants will be able to make an informed decision on the costs of participation in the Trust, and to the extent that the Bank's proposed fee arrangements do not comport with the requirements of 12 C.F.R. § 9.18(b)(12) pertaining to fee charges, the OCC will grant a waiver of those restrictions, pursuant to 12 C.F.R. § 9.18(c)(5), to permit the Trustee to charge the above-described fee.

Displaying Trust Documents in Branch Lobbies of Affiliate

As noted above, the Bank proposes to allow its affiliate, Bank of America, National Trust & Savings Association, San Francisco, California (Bank of America), to display copies of the Declaration of Trust, Trust Agreement, and Prospectus for the Trust in its branch lobbies. Bank of America, however, will not accept applications or money from customers who want to participate in the Trust. Bank of America will not act as trustee with respect to customers who participate in the Trust. Rather, the Bank alone will perform all of these functions in licensed locations Accordingly, we do not view this aspect of the Bank's proposal as inconsistent with the requirements of the McFadden Act, 12 U.S.C. § 36. *See Clarke v. Securities Industry Association*, 479 U.S. __, 93 L. Ed. 2d 757, 775 (1987).

Permissible Investments

Section 2(f) of the Investment Management Agreement provides:

> The commercial banking division of the Trustee or its afffiliates may have deposit, loan and other commercial banking relationships with issuers of securities purchased by the Trust, including outstanding loans to such issuers. However, the Trustee will not purchase securities in registered or unregisitered offerings where the Trustee knows, or should know, that the proceeds of the offering will be used to repay loans from the Trustee or its affiliates.

12 C.F.R. § 9.12(a) prohibits national banks, unless lawfully authorized by the trust agreement, court order or state law, from investing trust funds "in stock or obligations of . . . individuals or organizations in which there exists such an interest, as might affect the exercise of the best judgment of the bank in acquiring the . . . stock or obligations." You have represented that, to prevent violations of 12 C.F.R. § 9.12(a), when the Trustee has reason to believe that the issuer will use the proceeds from an offering to repay loans or other borrowings, the Trustee has a duty to inquire as to the identity of the lenders. In the event that the Bank or any of its affiliates is one of the lenders, the Trustee will not purchase the securities. In addition, you have represented that should the Trustee unknowingly purchase securities from an issuer, where the proceeds are used to defray loans or other borrowings from the Bank, upon discovery of this fact, the bank will promptly resell these securities at a profit or no loss to the Trust.

Generally, the use of proceeds from an offering is considered material information which must be disclosed to prospective investors. Among other things, the SEC's securities offering disclosure regulations adopted under the Securities Act of 1933 require the issuer to disclose the manner in which the offering proceeds will be used. *See* Securities Act of 1933 Forms S-1 (Item 4), S-2 (Item 4), and S-3 (Item 4). Since the Bank will disclose to participants that it will not purchase securities in a primary offering where it knows or should know that the proceeds will be used to repay loans to the Bank or its affiliates and since the Trustee recognizes its duty to make reasonable inquiry sufficient to satisfy its legal obligations in this regard, we believe that the requirements of 12 C.F.R. § 9.12(a) are satisfied and that the OCC may permit the proposed activity.

Finally, approval of the Bank's proposal is not precluded by the recently enacted Competitive Equality Banking Act of 1987, Pub L. No. 100-86, 100 Stat. 552. Section 201(b) of the Act imposes a temporary moratorium on approvals of certain securities activities of banking organizations. The Bank's proposal is not covered by the moratorium because it does not involve a securities activity. The establishment of a collective investment trust for IRA accounts has been determined by the OCC and three United States courts of appeals to constitute a "fiduciary activity" which banks may lawfully engage in under the national banking laws. *See* IRA Cases, *supra*. Moreover, even if the Bank's proposal did involve a securities activity, our review would not be covered by the moratorium. Under Section 201(b)(2)(B), a federal banking agency may not authorize a bank to engage "in any securities activity not legally authorized in writing prior to March 5, 1987;" the moratorium, however, does not preclude approval of activities lawfully engaged in prior to March 5, 1987. The Bank's proposal is not covered by the moratorium because the activity in question has been lawfully engaged in, with the repeated approval of the OCC, prior to March 5, 1987. *See* Chase Manhattan Approval and approvals cited in the IRA Cases, *supra*.

As our position is based on the specific facts and representations made in your letter and attachments thereto, you should be aware that any alteration in the terms of the Bank's proposal might require another interpretation. Further, this letter only expresses the OCC's position based on current statutes and regulation and is subject to modification as future legislative, judicial or regulatory developments warrant.

Robert J. Herrmann
Senior Deputy Comptroller for Bank Supervision

* * *

426—April 27, 1988

This is in response to your letter dated April 4, 1988, inquiring into the permissibility of *** (Bank) creating a trust for the purpose of investing in money market preferred stock where the dividend paid on the stock would be remitted to Bank.

Bank proposes to create a trust along with an investment banking firm (co-beneficiary). Bank would contribute 99 percent of the funding and co-beneficiary would contribute 1 percent. The corpus of the trust would be invested exclusively in shares of preferred stocks issued by corporations. Title to all securities would be held by the trustee. The trustee would remit to Bank all cash representing dividends received on the securities without deductions or offsets. All the trust's transactions would be executed through the co-beneficiary and for this service, the trust would pay the co-beneficiary or its affiliate a commission or fee.

The co-beneficiary would have full investment authority over the trust. It would instruct the trustee on the purchase and sale of individual issues, while the Bank would establish criteria regarding the investment quality of individual issues, diversification, and yield standards for the portfolio. Co-beneficiary would also instruct the trustee on the exercise of voting rights or shareholders rights with respect to the securities held in trust.

Under the trust agreement, Bank and co-beneficiary would have capital accounts which would be debited and credited for contributions, distributions, and allocations of income, gain, expense and loss. Bank would be allocated 99 percent of all trust expenses and all dividend income. Upon termination, Bank would get the return of its capital (*i.e.*, its investment plus any net undistributed dividends). The co-beneficiary would be allocated 100 percent of all gains and losses from the sales of preferred stock and 1 percent of all dividends and expenses. Also, the co-beneficiary would be obligated to make up any deficit in its capital account (*i.e.*, excess losses allocated to it over 1 percent).

The OCC's general position has been that an entity owned or invested in by a national bank can only engage in an activity which the bank itself could engage in. *See, e.g.*, 12 C.F.R. § 5.34 (allowing an operating subsidiary of a national bank to engage only in those activities that its parent national bank could engage in); Banking Circular 220 (allowing a national bank to invest in a mutual fund composed of wholly bank eligible assets because the investment in the mutual fund is the functional equivalent of investing in the bank eligible assets itself); and Interpretive Letter dated November 1, 1979, by Joseph Pogar, Jr., Regional Counsel for the Western District Office of the OCC in LASD Precedent File "12 U.S.C. § 24 (Seventh)" (allowing a national bank to become a limited partner in a partnership provided the partnership engage only in those activities a national bank could legally engage in itself).

It is apparent from the above that the only way Bank could establish a trust to invest in money market preferred stock is if Bank could invest in the stock itself. As a general rule, a national bank is prohibited from purchasing shares of stock of corporations. 12 U.S.C. § 24 (Seventh). Accordingly, Bank could not invest in preferred stock for its own account. Therefore, an entity which it creates (*i.e.*, the proposed trust) may not invest in preferred stock.[1]

---

[1]If an entity not created by Bank nor affiliated with Bank were to sell its right to collect a declared dividend, then the OCC may view the dividend as an "evidence of debt" owed by the corporation to the shareholder. If this declared dividend is viewed as an "evidence of debt," then a national bank may use its express power under the National Bank Act to discount and negotiate (*i.e.*, buy and sell) it. *See* 12 U.S.C. § 24 (Seventh).

I trust this is responsive to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

427—May 9, 1988

Mr. J.R. Nunn, President
Independent Bankers Association of America
One Thomas Circle, N.W., Suite 950
Washington, D.C. 20005-5802

Dear Mr. Nunn:

I am writing in response to your letter to Comptroller Clarke, dated March 24, 1988, which requests a ruling on the authority of national banks to purchase stock in the Federal Agricultural Mortgage Corporation (Farmer Mac). Farmer Mac is intended to facilitate the secondary market in agricultural loans by guaranteeing the principal and interest of securities representing interests in pools of qualified loans, and by developing uniform underwriting standards. The Agricultural Credit Act of 1987 (Agricultural Act), which established Farmer Mac, does not specifically authorize national banks to purchase such stock. However, we conclude that the National Bank Act, supported by the legislative history of the Agricultural Act, permits national banks to purchase Farmer Mac stock, subject to certain limitations discussed below.

Under 12 U.S.C. § 24(7), national banks are authorized "[t]o exercise . . . all such incidental powers as shall be necessary to carry on the business of banking; . . . by loaning money on personal security." Courts have interpreted the incidental powers clause to include, at least, those services that are useful and convenient to the bank or its customers in conducting activities that are expressly allowed under 12 U.S.C. § 24(7). *See e.g., Franklin National Bank v. New York*, 347 U.S. 373 (1954); *Arnold Tours, Inc. v. Camp*, 472 F.2d 427 (1st Cir. 1972).

National banks' participation in the secondary market for agricultural loans and the resulting purchase of Farmer Mac stock falls within such incidental powers. Pursuant to 12 U.S.C. § 24(7), national banks are expressly permitted to loan money. Participating in the secondary mortgage market by, for instance, selling agricultural loans serves to increase the availability of credit to farmers. The sale of agricultural loans to the secondary market is thus convenient and useful to both the bank and its customers.

Although Section 24(7) generally prohibits the purchase of stock by a national bank, we do not believe that the provision was intended to apply to transactions such as purchasing the stock of Farmer Mac. The prohibition was originally enacted to prevent national banks from engaging in what was viewed as speculative activity through stock investment. S. Rep. No. 77, 73d Cong., 1st Sess. 11 (1933). The Comptroller's Office has previously ruled that national banks may buy the stock of a company where the purchase is not motivated by an investment objective, but by participation in facilitating the deposit of securities and the transfer and pledge of book entry securities. Letter dated 12/19/75 by John E. Shockey, Deputy Chief Counsel (unpublished). *See also* OCC Interpretive Letter No. 421, [Current] Fed. Banking L. Rep. (CCH) ¶ 85,645 (March 14, 1988). Similarly, the purchase of Farmer Mac stock by national banks is not motivated by an investment objective, but is only intended to permit participation in the agricultural secondary mortgage market.

The legislative history of the Agricultural Act further indicates that Congress assumed that national banks may, and intended them to, participate in the secondary mortgage market by purchasing Farmer Mac stock. Title VIII of that law, which establishes a secondary market for agricultural mortgages, evidences Congress' intent to increase the availability of long-term credit to farmers and ranchers at stable interest rates.

As you point out, national banks' primary role in the secondary market will be as loan originators. The Agricultural Act authorizes Farmer Mac to require loan originators to provide nonrefundable capital contributions as needed. P.L. No. 100-233, Title VII, section 8.7(a)(1), 1988 *U.S. Code Cong. & Ad. News* (101 Stat.) 1568, 1686. Farmer Mac will then issue voting common stock as consideration for such contributions. The Agricultural Act thus contains a provision that may <u>require</u> national banks to own stock in Farmer Mac as a condition of their participation in the secondary market.

A number of other provisions in the Agricultural Act indicate that Congress intended all types of financial institutions to purchase the stock of Farmer Mac, and thereby participate in the newly formed secondary market. For example, the statute states that "voting common stock [of Farmer Mac] shall be offered to banks, other financial entities, insurance companies, and System institutions under such terms and conditions as the interim board may adopt." *Id.*, section 8.2(a)(9)(B).

The Agricultural Act also provides that five members of the permanent board of directors shall be elected by "holders of common stock that are insurance companies, banks or other financial institutions or entities." *Id.*, section 8.2(b)(2). Another five members of the board of directors are to be elected by Farm Credit System institutions, and five are to be appointed by the President. *Id.* This

is to assure that no type of financial institution obtains a disproportionate amount of voting stock. A scheme such as this which ensures broad distribution of stock and voting rights, indicates Congress' intent to permit all types of financial institutions, including national banks, to purchase the stock of Farmer Mac.

Finally, the Agricultural Act does not indicate or establish a limit on the amount of stock that may be purchased by a national bank. The OCC is obligated to ensure that the activities of national banks are conducted in a manner consistent with safe and sound banking practives. In this respect, the Agricultural Act states that Farmer Mac stock is to be widely distributed to ensure that no institution acquires a disporportionate amount of stock. *Id.*, section 8.2(a)(9)(C). Thus, the Agricultural Act indicates that Congress intended Farmer Mac stock to be widely dispersed among all types of financial institutions, and that an individual bank will not be required to hold a significant amount of stock.

In conclusion, we believe that national banks can purchase Farmer Mac stock in nominal amounts necessary to participate in the program, but any such purchase must be consistent with safe and sound banking practices.

Paul Allan Schott
Chief Counsel

* * *

428—May 11, 1988

Mr. Michael S. Helfer
Wilmer, Cutler & Pickering
2445 M Street, NW
Washington, DC 20037-1420

Dear Mr. Helfer:

Your letter of February 18, 1988, addressed to Mr. Robert R. Klinzing, Deputy Comptroller, Midwest District, was forwarded to me for response. In that letter you notified the OCC of Centerre Bank, NA's (Bank's) intent to change the name of its operating subsidiary (Subsidiary), Marketing Street Securities, Inc. to Centerre Investment Center, Inc. and also to expand Subsidiary's activities to include the purchases of variable rate annuities as agent for Bank customers as well as the provision of investment advice with respect to those annuities. Because the proposed services are within the scope of activities which the OCC had previously determined to be permissible for national banks and their operating subsidiaries, the Bank may proceed.

You state that the Bank received authority to acquire Subsidiary on December 24, 1987. Subsidiary currently provides investment advice and securities brokerage services, including shares of mutual funds and interests in unit investment trusts and secondary market securities, on an agency basis. Subsidiary effects transactions involving securities solely on the customer's order and for the customer's account. Neither Subsidiary's nor Bank's assets are at risk in these transactions. Subsidiary is registered as a broker-dealer with the Securities and Exchange Commission as well as with the securities commissions of various states; Subsidiary is also a member of the National Association of Securities Dealers. All activities are presently conducted from the Bank's main offices, Bank branches, or affiliated branches. The Bank notes, however, that as market conditions warrant additional offices may be established at locations that are not necessarily at the main offices, Bank branches, or affiliated branches.

The OCC has no objection to the change in Subsidiary's name. Additionally, the OCC has no objection to Subsidiary purchasing variable rate annuities on an agency basis for its customers and providing investment advisory services with respect to those annuities. We have approved the brokerage of variable rate annuities by national banks and their operating subsidiaries. *See* Interpretive Letter No. 415 (February 12, 1988) *reprinted in* Fed. Banking L. Rep [Current] (CCH) ¶ 85,639; Interpretive Letter No. 331 (April 4, 1985) *reprinted in* Fed. Banking L. Rep. [1985-1987 Transfer Binder] (CCH) ¶ 85,501. Furthermore, the provision of investment advisory, planning, or information services in combination with brokerage in the same or related subsidiaries has also been approved by the OCC. *See* Interpretive Letter No. 403 (December 9, 1987) *reprinted in* Fed Banking L. Rep. [Current] (CCH) ¶ 85,627; OCC Letter No. 386 (June 19, 1987) *reprinted in* Fed. Banking L. Rep. [Current] (CCH) ¶ 85,610; OCC Letter No. 370 (April 16, 1986), *reprinted in* Fed. Banking L. Rep. [1985-1987 Transfer Binder] (CCH) ¶ 85,540; OCC Letter No. 360 (April 16, 1986), *reprinted in* Fed. Banking L. Rep. [1985-1987 Transfer Binder] (CCH) ¶ 85, 530; *Decision of the Comptroller of the Currency Concerning an Application by American National Bank of Austin, Texas, to Establish an Operating Subsidiary to Provide Investment Advice*, (September 2, 1983), *reprinted in* Fed. Banking L. Rep. [1983-1984 Transfer Binder] (CCH) ¶ 99,732. According to your letter, the Bank merely proposes to combine two permissible activities.

In our opinion, the Subsidiary's proposed activities do not include the types of business for which a branch license is required under 12 U.S.C. § 36(f), and therefore the Bank may offer them at locations other than its branches.

The Supreme Court has affirmed the OCC's decision that a national bank could offer discount brokerage at non-branch locations because discount brokerage did not

involve the three types of core banking business enumerated in section 36(f) or an activity similar to the enumerated types. *See Securities Industry Association v. Comptroller of the Currency*, 577 F. Supp. 252 (D.D.C. 1983), *aff'd per curiam*, 758 F.2d 739 (D.C. Cir. 1985), *cert. denied*, 106 S. Ct. 790 (1986), (brokerage issue), *rev'd*, 93 L.Ed.2d 757, 772-775 (1987) (branching issue). We have also previously taken the position that the provision of investment advice is likewise not an activity requiring a branch license under section 36(f) because it too is not one of the three enumerated activies. *See* Letter from Michael Patriarca, Deputy Comptroller (March 28, 1985). The recent case in the related area of discount brokerage is supportive of that analysis. Thus, the Subsidiary's activities may be offered at locations other than approved branches.

Where the Subsidiary is engaged in margin lending for customers, please note that the Bank and the Subsidiary must take appropriate steps to ensure this activity is conducted in compliance with 12 U.S.C. § 36. See, e.g., 12 C.F.R. § 7.7380.

Based on the above precedents and the facts in your letter, I have no objection to the Bank's notification of its intent to change the name of its operating subsidiary and to the expansion of Subsidiary's activities.

J. Michael Shepherd
Senior Deputy Comptroller
Corporate and Economic Programs

* * *

429—May 19, 1988

This is in response to your letter of April 8, 1988, in which you asked for confirmation that national banks may purchase life insurance on an officer or director, transfer the benefit portion of the policy to the officer or director upon his or her retirement or resignation, and retain ownership of the remaining portion of the policy so as to recover its investment in the policy. Such a life insurance arrangement is permissible.

This is known as "split dollar" life insurance, because the cost of the policy is split between an employer and employee. The employer retains ownership of the policy, including the right to the cash value of the policy, and upon the employee's death, receives that portion of the proceeds equal to its premium investment. The balance of the proceeds is paid to the employee's beneficiary. Split dollar plans are a popular form of fringe benefit for corporate executives and professionals because it is costly for the employee to purchase such insurance directly. Such a plan is also cheaper for an employer than paying the additional compensation necessary to enable the employee to purchase compatible insurance individually. E. Alvarez & G. Yamate, "Life Insurance for the Lawyer," 18 Forum 22 (1982).

In the split dollar arrangement which you have in mind, a national bank would pay for life insurance on an officer or director until the employee's retirement or resignation. At that time (or perhaps earlier, if the employee so chooses), he or she could take over ownership of the policy, assuming responsibility for future premiums. However, the bank would retain partial ownership of the policy to the extent that it would recover its premium investment plus accrued interest upon the death of the insured. You have asked for confirmation that if the bank chooses to transfer ownership of a portion of the policy in this way, it would not have to cancel the remainder of the policy as long as the death benefit conforms to the original goal of recovering premiums plus accrued interest.

Your inquiry was prompted by a statement which appeared in a recent OCC interpretive letter. The letter concerned the question of whether a national bank may purchase a single premium life insurance policy on the life of a director in an amount sufficient to fund the bank's death benefit obligation and return to the bank the amount of premiums it had paid, plus accrued interest. The interpretive letter approved the general concept of such insurance as part of a reasonable compensation package for a bank director, with certain supervisory qualifications.

One such qualification was the following statement:

> Also, a national bank may carry an insurance policy on the life of a director only so long as the bank continues to have a corresponding interest in the director's life. That is, when a director retires or resigns so that the director is no longer a key person and the bank is no longer obligated to pay a death benefit upon the director's death, the bank may no longer carry insurance to protect those interests. Interpretive Letter No. 401, November 13, 1987, *reprinted in* [Current] Fed. Banking L. Rep. (CCH) ¶ 85,625.

As that letter stated, a national bank may purchase insurance on the life of a bank officer. 12 C.F.R. § 7.7115. Such insurance is also proper for a bank director. A national bank may also purchase insurance as part of a reasonable compensation package, which is authorized by 12 C.F.R. § 7.5220.

The quoted passage was intended to make clear that a national bank may not continue to fund the death benefit portion of a life insurance policy after the resignation or retirement of a director or officer, *i.e.*, after the bank no longer has an insurable interest in the life of the insured

It was not meant to prohibit the type of split dollar arrangement to which you refer. Therefore, your plan would be permissible. Of course, the other supervisory requirements stated in Interpretive Letter No. 401 remain in effect.

I trust that this has been responsive to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

Mergers—April 1 to June 30, 1988

Mergers consummated involving two or more operating banks.

There are a number of transactions in this section that do not have an accompanying decision. In those cases, the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction had minimal or no adverse competitive effects. The Office found the proposals satisfied its criteria for a transaction that clearly had no or minimal adverse competitive effects.

FIRST BANK OF NORTH DAKOTA (N.A.)-FARGO,

Fargo, North Dakota, and The First National Bank and Trust Company of Bismarck, Bismarck, North Dakota, and First Bank of North Dakota (N.A.)-Grand Forks, Grand Forks, North Dakota, and First Bank of North Dakota (N.A.)-Jamestown, Jamestown, North Dakota, and First Bank of North Dakota (N.A.)-Minot, Minot, North Dakota

Names of banks and type of transaction	*Total assets*
First Bank of North Dakota (N.A.)-Fargo, Fargo, North Dakota (13323), with	$ 260,366,000
and The First National Bank and Trust Company of Bismarck, Bismarck, North Dakota (2434), with	218,727,000
and First Bank of North Dakota (N.A.)-Grand Forks, Grand Forks, North Dakota (13357), with	104,453,000
and First Bank of North Dakota (N.A.)-Jamestown, Jamestown, North Dakota (13344), with	100,635,000
and First Bank of North Dakota (N.A.)-Minot, Minot, North Dakota (13455), with	105,106,000
merged April 1, 1988, under charter and title of First Bank of North Dakota, National Association, Fargo, North Dakota. The merged bank at date of merger had	786,505,000

* * *

THE FIRST NATIONAL BANK OF ALICEVILLE,

Aliceville, Alabama, and Bank of Gordo, Gordo, Alabama

Names of banks and type of transaction	*Total assets*
The First National Bank of Aliceville, Aliceville, Alabama (15535), with	$ 23,283,000
and Bank of Gordo, Gordo, Alabama, with	22,318,000
merged April 1, 1988, under charter and title of the former. The merged bank at date of merger had	45,601,000

* * *

FIRST OF AMERICA BANK-DETROIT, NATIONAL ASSOCIATION,

Detroit, Michigan, and First of America Bank-Oakland Macomb, National Association, Pontiac, Michigan, and First of America Bank-Rochester, National Association, Rochester, Michigan and First of America Bank-Wayne Oakland, Troy, Michigan

Names of banks and type of transaction	*Total assets*
First of America Bank-Detroit, National Association, Detroit, Michigan (14925), with	$1,035,242,000
and First of American Bank-Oakland Macomb, National Association, Pontiac, Michigan (13739), with	612,649,000
and First of America Bank-Rochester, National Association, Rochester, Michigan (15274), with	65,815,000
and First of America Bank-Wayne Oakland, Troy, Michigan, with	731,798,000
merged April 1, 1988, under charter 14925 and title "First of American Bank-Metro, National Association" in Detroit. The merged bank at date of merger had	2,429,112,000

* * *

INDEPENDENT BANK-COPPELL, NATIONAL ASSOCIATION,

Coppell, Texas, and Independent Bank, National Association, Dallas, Texas, and Independent Bank-Balch Springs, National Association, Balch Springs, Texas

Names of banks and type of transaction	*Total assets*
Independent Bank-Coppell, National Association, Coppell, Texas (20064), with	$ 15,898,000
and Independent Bank, National Association, Dallas, Texas (20511) with	10,160,000
and Independent Bank-Balch Springs, National Association, Balch Springs, Texas (18345), with	11,413,000
merged April 1, 1988, under charter and title of the Independent Bank-Coppell, National Association. The merged bank at date of merger had	36,471,000

* * *

MIDLANTIC NATIONAL BANK,
Newark, New Jersey, and Midlantic National Bank/Sussex & Merchants, Newton, New Jersey

Names of banks and type of transaction	Total assets
Midlantic National Bank, Newark, New Jersey (1316), with	$4,753,135,000
and Midlantic National Bank/Sussex & Merchants, Newton, New Jersey (925), with	221,168,000
merged April 1, 1988, under charter and title of the former. The merged bank at date of merger had	4,974,303,000

* * *

MIDLANTIC NATIONAL BANK/SOUTH,
Mount Laurel, New Jersey, and Midlantic National Bank/Union Trust, Wildwood, New Jersey

Names of banks and type of transaction	Total assets
Midlantic National Bank/South, Mount Laurel, New Jersey (1209), with	$2,050,217,000
and Midlantic National Bank/Union Trust, Wildwood, New Jersey (18224) with	134,699,000
merged April 1, 1988, under charter and title of the former. The merged bank at date of merger had	2,184,916,000

* * *

NORWEST BANK MESABI, NATIONAL ASSOCIATION,
Virginia, Minnesota, and Norwest Bank Ely, National Association, Ely, Minnesota

Names of banks and type of transaction	Total assets
Norwest Bank Mesabi, National Association, Virginia, Minnesota (14536), with	$ 126,940,000
and Norwest Bank Ely, National Association, Ely, Minnesota (8592) with	40,708,000
merged April 1, 1988, under charter and title of the former. The merged bank at date of merger had	165,748,000

* * *

SECURITY NATIONAL BANK,
Sidney, Nebraska, and The Security State Bank, Holbrook, Nebraska

Names of banks and type of transaction	Total assets
Security National Bank, Sidney, Nebraska (12552), with	$ 48,077,000
and The Security State Bank, Holbrook, Nebraska, with	9,326,000
merged April 1, 1988, under charter and title of the former. The merged bank at date of merger had	57,403,000

* * *

THE FARMERS AND MERCHANTS NATIONAL BANK OF MERKEL,
Merkel, Texas, and Home State Bank, Trent, Texas

Names of banks and type of transaction	Total assets
The Farmers and Merchants National Bank of Merkel, Merkel, Texas (7481), with	$ 30,408,000
and Home State Bank, Trent, Texas with	5,401,000
merged April 7, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

CHARTER NATIONAL BANK-WILLOWBROOK,
Houston, Texas, and Cy-Fair Bank, National Association, Houston, Texas

Names of banks and type of transaction	Total assets
Charter National Bank-Willowbrook, Houston, Texas (16849), with	$ 47,261,000
and Cy-Fair Bank, National Association, Houston, Texas (17969) with	13,897,000
merged April 14, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST NATIONAL BANK & TRUST COMPANY,
El Dorado, Kansas, and Burns State Bank, Burns, Kansas

Names of banks and type of transaction	Total assets
First National Bank & Trust Company, El Dorado, Kansas (6494), with	$ 81,187,000
and Burns State Bank, Burns, Kansas, with	3,620,000
merged April 15, 1988, under charter and title of the former. The merged bank at date of merger had	84,640,000

COMPTROLLER'S DECISION

On April 8, 1988, application was made to the Office of the Comptroller of the Currency pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge Burns State Bank, Burns, Kansas (Burns) into First National Bank and Trust Company, El Dorado, Kansas (FNB). The application is based on an agreement finalized between FNB and Burns on April 8, 1988.

FNB, a subsidiary of Exchange Holding, Inc., had total assets of $81 million and total deposits of $74 million as of March 31, 1988, and operated two offices in Butler County.

Burns had total assets of $3.6 million and total deposits of $3.4 million and operated its only office in Burns, Kansas.

The relevant geographic market for this proposal consists of the town of Burns, Kansas, where Burns operates its only office. In addition to the fact that FNB has had effective management control over Burns since July 1987, due to the acquisition of 96 percent of Burns' stock, the two banks do not compete in the same market and are located twenty miles apart. Consummation of this proposal will not have an adverse effect on competition.

The Bank Merger Act requires this Office to consider ". . .the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find that the financial and managerial resources of FNB are sufficient and the merger will enable FNB to enhance the banking services in the Burns community. The future prospects of the resulting bank are considered satisfactory, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

April 13, 1988

A report was not requested from the Attorney General.

* * *

ONE VALLEY BANK, NATIONAL ASSOCIATION,
Charleston, West Virginia, and Parkersburg Industrial Banking Corporation, Parkersburg, West Viriginia

Names of banks and type of transaction	Total assets
One Valley Bank, National Association, Charleston, West Virginia (16433), with	$ 851,187,000
and Parkersburg Industrial Banking Corporation, Parkersburg, West Virginia, with	2,613,000
merged April 15, 1988, under charter and title of the former. The merged bank at date of merger had	850,576,000

* * *

OVERTON PARK NATIONAL BANK,
Fort Worth, Texas, and Ridglea National Bank, Fort Worth, Texas

Names of banks and type of transaction	Total assets
Overton Park National Bank, Fort Worth, Texas (16716), with	$ 110,338,000
and Ridglea National Bank, Fort Worth, Texas (18222) with	35,630,000
merged April 15, 1988, under charter and title of the former. The merged bank at date of merger had	145,969,000

* * *

FIRST CITY NATIONAL BANK OF HOUSTON,
Houston, Texas, and McAllen State Bank, McAllen, Texas

Names of banks and type of transaction	Total assets
First City National Bank of Houston, Houston, Texas (13943), with	$4,423,355,000
and McAllen State Bank, McAllen, Texas, with	580,047,000
merged April 19, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE FIRST NATIONAL BANK,
Dayton, Ohio, and Unity Bank, Dayton, Ohio

Names of banks and type of transaction	Total assets
The First National Bank, Dayton, Ohio (1788), with	$ 879,644,000
and Unity Bank, Dayton, Ohio, with	7,066,000
merged April 22, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST OF AMERICA BANK-MARQUETTE, NATIONAL ASSOCIATION,
Marquette, Michigan, and First of America Bank-Menominee, Menominee, Michigan

Names of banks and type of transaction	Total assets
First of American Bank-Marquette, National Association, Marquette, Michigan (12027), with	$ 98,914,000
and First of America Bank-Menominee, Menominee, Michigan, with	35,165,000
merged April 22, 1988, under charter and title of the former. The merged bank at date of merger had	134,079,000

* * *

THE FARMERS NATIONAL BANK OF GENESEO,
Geneseo, Illinois, and Bank of Atkinson, National Association, Atkinson, Illinois

Names of banks and type of transaction	Total assets
The Farmers National Bank of Geneseo, Geneseo, Illinois (2332), with	$ 98,331,000
and Bank of Atkinson, National Association, Atkinson, Illinois (18001) with	16,897,000
merged April 25, 1988, under charter and title of the former. The merged bank at date of merger had	115,107,000

* * *

THE CITY NATIONAL BANK OF MURPHYSBORO,
Murphysboro, Illinois, and City Bank of Carbondale, Carbondale, Illinois

Names of banks and type of transaction	Total assets
The City National Bank of Murphysboro, Murphysboro, Illinois (4804), with	$ 77,585,000
and City Bank of Carbondale, Carbondale, Illinois, with	19,878,000
merged April 29, 1988, under charter of the former and title "The City National Bank." The merged bank at date of merger had	97,464,000

* * *

UNITED BANK OF CHERRY CREEK, NATIONAL ASSOCIATION,
Denver, Colorado, and United Bank of University Hills, National Association, Denver, Colorado

Names of banks and type of transaction	Total assets
United Bank of Cherry Creek, National Association, Denver, Colorado (17361), with	$ 55,954,000
and United Bank of University Hills, National Association, Denver, Colorado (20531) with	10,265,000
merged April 29, 1988, under charter and title of the former. The merged bank at date of merger had	66,219,000

* * *

FIRST REPUBLICBANK AUSTIN, NATIONAL ASSOCIATION,

Austin, Texas, and First RepublicBank North Austin, National Association, Austin, Texas, and First RepublicBank NW Austin, National Association, Austin, Texas, and First RepublicBank Oak Hill, National Association, Austin, Texas, and First RepublicBank South Austin, Austin, Texas, and First RepublicBank Westlake, National Association, Austin, Texas

Names of banks and type of transaction	*Total assets*
First RepublicBank Austin, National Association, Austin, Texas (4308), with	$1,850,381,000
and First RepublicBank North Austin, National Association, Austin, Texas (18591), with	26,360,000
and First RepublicBank NW Austin, National Association, Austin, Texas (16794), with	87,437,000
and First RepublicBank Oak Hill, National Association, Austin, Texas (16282), with	112,418,000
and First RepublicBank South Austin, Austin, Texas, with	136,072,000
and First RepublicBank Westlake, National Association, Austin, Texas (18481), with	2,914,000
merged April 30, 1988, under charter and title of the First RepublicBank Austin, National Association. The merged bank at date of merger had	2,108,125,000

* * *

FIRST REPUBLICBANK DALLAS, NATIONAL ASSOCIATION,

Dallas, Texas, and First RepublicBank Carrollton, Carrollton, Texas, and First RepublicBank Dallas East, National Association, Dallas, Texas, and First RepublicBank DFW Freeport, National Association, Irving, Texas, and First RepublicBank Garland, National Association, Garland, Texas, and First RepublicBank Grand Prairie, National Association, Grand Prairie, Texas, and First RepublicBank Greenville Avenue, Dallas, Texas, and First RepublicBank Hutchins, Hutchins, Texas, and First RepublicBank Irving, Irving, Texas, and First RepublicBank Las Colinas, Irving, Texas, and First RepublicBank North Dallas, National Association, Dallas, Texas, and First RepublicBank Oak Cliff, Dallas, Texas, and First RepublicBank Park Cities, Dallas, Texas, and First RepublicBank Pleasant Grove, Dallas, Texas, and First RepublicBank Richardson, Richardson, Texas

Names of banks and type of transaction	*Total assets*
First RepublicBank Dallas, National Association, Dallas, Texas (12186), with	$19,447,787,000
and First RepublicBank Carrollton, Carrollton, Texas, with	291,569,000
and First RepublicBank Dallas East, National Association, Dallas, Texas (14563), with	116,914,000
and First RepublicBank DFW Freeport, National Association, Irving, Texas (17743), with	34,315,000
and First RepublicBank Garland, National Association, Garland, Texas (7989), with	220,408,000
and First RepublicBank Grand Prairie, National Association, Grand Prairie, Texas (15120), with	122,525,000
and First RepublicBank Greenville Avenue, Dallas, Texas, with	317,556,000
and First RepublicBank Hutchins, Hutchins, Texas, with	38,009,000
and First RepublicBank Irving, Irving, Texas, with	286,715,000
and First RepublicBank Las Colinas, Irving, Texas, with	200,739,000
and First RepublicBank North Dallas, National Association, Dallas, Texas (17160), with	275,384,000
and First RepublicBank Oak Cliff, Dallas, Texas, with	521,799,000
and First RepublicBank Park Cities, Dallas, Texas, with	355,572,000
and First RepublicBank Pleasant Grove, Dallas, Texas, with	109,743,000
and First RepublicBank Richardson, Richardson, Texas, with	129,200,000
merged April 30, 1988, under charter and title of the First RepublicBank Dallas, National Association. The merged bank at date of merger had	20,811,945,000

* * *

FIRST REPUBLICBANK SAN ANTONIO, NATIONAL ASSOCIATION,

San Antonio, Texas, and First RepublicBank Alamo Heights, National Association, San Antonio, Texas, and First RepublicBank Countryside, National Association, San Antonio, Texas, and First RepublicBank Northern Hills, San Antonio, Texas, and First RepublicBank NW San Antonio, National Association, San Antonio, Texas

Names of banks and type of transaction	*Total assets*
First RepublicBank San Antonio, National Association, San Antonio, Texas (14283), with	$ 786,487,000
and First RepublicBank Alamo Heights, National Association, San Antonio, Texas (15514), with	150,866,000
and First RepublicBank Countryside, National Association, San Antonio, Texas (20651), with	40,408,000
and First RepublicBank Northern Hills, San Antonio, Texas, with	62,154,000
and First RepublicBank NW San Antonio, National Association, San Antonio, Texas (17793), with	132,746,000
merged April 30, 1988, under charter and title of the First RepublicBank San Antonio, National Association, San Antonio, Texas. The merged bank at date of merger had	1,164,929,000

* * *

FIRST UNION NATIONAL BANK OF FLORIDA,
Jacksonville, Florida, and The First State Bank of Lantana, Lantana, Florida

Names of banks and type of transaction	Total assets
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$7,251,408,000
and The First State Bank of Lantana, Lantana, Florida, with	134,602,000
merged April 30, 1988, under charter and title of the former. The merged bank at date of merger had	7,416,010,000

* * *

FIRST BANK N.A.-DULUTH,
Duluth, Minnesota, and The First National Bank of Cloquet, Cloquet, Minnesota

Names of banks and type of transaction	Total assets
First Bank N.A.-Duluth, Duluth, Minnesota (9327), with	$ 388,900,000
and The First National Bank of Cloquet, Cloquet, Minnesota (5405) with	63,135,000
merged May 1, 1988, under charter of the former and title "First Bank North, National Association." The merged bank at date of merger had	451,293,000

* * *

FIRST BANK, N.A.-ST. CLOUD, NATIONAL ASSOCIATION,
St. Cloud, Minnesota,, and First National Bank in Alexandria, Alexandria, Minnesota, and The First National of Brainerd, Brainerd, Minnesota and First National Bank of Willmar, Willmar, Minnesota

Names of banks and type of transaction	Total assets
First Bank, N.A.-St. Cloud, National Association, St. Cloud, Minnesota (16744), with	$ 76,953,000
and First National Bank in Alexandria, Alexandria, Minnesota (12864) with	82,803,000
and The First National Bank of Brainerd, Brainerd, Minnesota (2590), with	99,058,000
and First National Bank of Willmar, Willmar, Minnesota (13401), with	85,651,000
merged May 1, 1988, under charter 16744 and title "First Bank Central, National Association" in St. Cloud. The merged bank at date of merger had	344,465,000

* * *

FIRST NATIONAL BANK OF MANKATO, NATIONAL ASSOCIATION,
Mankato, Minnesota, and The First National Bank of Fairmont, Fairmont, Minnesota

Names of banks and type of transaction	Total assets
First National Bank of Mankato, National Association, Mankato, Minnesota (1683), with	$ 119,709,000
and The First National Bank of Fairmont, Fairmont, Minnesota (4936) with	57,734,000
merged May 1, 1988, under charter of the former and title "First Bank South, National Association." The merged bank at date of merger had	177,443,000

* * *

THE FIRST NATIONAL BANK OF ROCHESTER, NATIONAL ASSOCIATION,
Rochester, Minnesota, and First Bank (N.A.)-Albert Lea, Albert Lea, Minnesota, and The First National Bank of Austin, Austin, Minnesota, and The First National Bank of Owatonna, Owatonna, Minnesota

Names of banks and type of transaction	Total assets
The First National Bank of Rochester, National Association, Rochester, Minnesota (579), with	$ 257,257,000
and First Bank (N.A.)-Albert Lea, Albert Lea, Minnesota (13422), with	64,014,000
and The First National Bank of Austin, Austin, Minnesota (1690), with	136,052,000
and The First National Bank of Owatonna, Owatonna, Minnesota (1911), with	76,663,000
merged May 1, 1988, under charter 579 and title "First Bank Southeast, National Association." The merged bank at date of merger had	532,036,000

* * *

NORWEST BANK MARSHALL, NATIONAL ASSOCIATION,
Marshall, Minnesota, and Norwest Bank Worthington, National Association, Worthington, Minnesota

Names of banks and type of transaction	Total assets
Norwest Bank Marshall, National Association, Marshall, Minnesota (4614), with	$ 109,059,000
and Norwest Bank Worthington, National Association, Worthington, Minnesota (21127) with	54,149,000
merged May 1, 1988, under charter of the former and title "Norwest Bank Minnesota Southwest, National Association." The merged bank at date of merger had	161,787,000

* * *

BELLINGHAM NATIONAL BANK,
Bellingham, Washington, and Bank of Washington, National Association, Bellingham, Washington

Names of banks and type of transaction	Total assets
Bellingham National Bank, Bellingham, Washington (7474), with	$ 165,847,000
and Bank of Washington, National Association, Bellingham, Washington (21735) with	26,114,000
merged May 2, 1988, under charter of the latter and title of the former. The merged bank at date of merger had	192,009,000

* * *

CORNERSTONE BANK, NATIONAL ASSOCIATION,
Dallas, Texas, and Union Bank & Trust of Dallas, Dallas, Texas

Names of banks and type of transaction	Total assets
Cornerstone Bank, National Association, Dallas, Texas (20212), with	$ 102,566,000
and Union Bank & Trust of Dallas, Dallas, Texas, with	36,676,000
merged May 5, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

NATIONAL BANK OF SOUTHERN CALIFORNIA,
Santa Ana, California, and Pacific Regency Bank, El Toro, California

Names of banks and type of transaction	Total assets
National Bank of Southern California, Santa Ana, California (17623), with	$ 123,859,000
and Pacific Regency Bank, El Toro, California, with	12,800,000
merged May 5, 1988, under charter and title of the former. The merged bank at date of merger had	136,659,000

COMPTROLLER'S DECISION

On March 22, 1988, application was made to the Office of the Comptroller of the Currency for prior written approval for National Bank of Southern California, Santa Ana, California (NBSC) to purchase the assets and assume the liabilities of Pacific Regency Bank, El Toro, California (Pacific). This application was based on an agreement finalized between the proponents on February 2, 1988.

As of December 31, 1987, NBSC, a wholly owned subsidiary of California Commercial Bankshares, Inc., had total assets of $132 million, and total deposits of $121 million and operated its main office in Santa Ana. On the same date, Pacific had total assets of $13 million and total deposits of $12.7 million, and operated its main office in El Toro.

The relevant geographic market for this proposal is the area including and immediately surrounding El Toro, where Pacific operates its main office and derives the bulk of its deposits. The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether such a proposal would clearly have minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a purchase of assets which has minimal or no adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . .the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of NBSC are satisfactory and do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered

satisfactory, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

April 26, 1988

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

RIVERSIDE NATIONAL BANK,
Riverside, California, and Mission Bank, Riverside, California

Names of banks and type of transaction	*Total assets*
Riverside National Bank, Riverside, California (15489), with	$ 142,000,000
and Mission Bank, Riverside, California, with	41,000,000
merged May 5, 1988, under charter and title of the former. The merged bank at date of merger had	182,000,000

* * *

FIRST MIDWEST BANK/MORRIS, A NATIONAL ASSOCIATION,
Morris, Illinois, and First Midwest Bank/Illinois, A National Association, Streator, Illinois

Names of banks and type of transaction	*Total assets*
First Midwest Bank/Morris, A National Association, Morris, Illinois (1773), with	$ 114,891,000
and First Midwest Bank/Illinois, A National Association, Streator, Illinois (2681) with	489,242,000
merged May 6, 1988, under charter and title of the former. The merged bank at date of merger had	604,133,000

* * *

THE FIRST JERSEY NATIONAL BANK,
Jersey City, New Jersey, and The First Jersey National Bank/West, Denville, New Jersey

Names of banks and type of transaction	*Total assets*
The First Jersey National Bank, Jersey City, New Jersey (374), with	$2,503,488,000
and The First Jersey National Bank/West, Denville, New Jersey (15646) with	311,397,000
merged May 7, 1988, under charter and title of the former. The merged bank at date of merger had	2,814,985,000

* * *

FIRST REPUBLICBANK PLANO, NATIONAL ASSOCIATION,
Plano, Texas, and First RepublicBank Preston North, National Association, Plano, Texas

Names of banks and type of transaction	*Total assets*
First RepublicBank Plano, National Association, Plano, Texas (13511), with	$ 175,206,000
and First RepublicBank Preston North, National Association, Plano, Texas (20992) with	48,321,000
merged May 12, 1988, under charter and title of the former. The merged bank at date of merger had	223,527,000

* * *

COMPASS BANK HOUSTON, NATIONAL ASSOCIATION,
Houston, Texas, and Westside National Bank, Houston, Texas

Names of banks and type of transaction	Total assets
Compass Bank Houston, National Association, Houston, Texas (17605), with	$ 48,479,000
and Westside National Bank, Houston, Texas (17075) with	32,188,000
merged May 13, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE NATIONAL BANK OF WATERLOO,
Waterloo, Iowa, and The First National Bank of Tama County, Dysart, Iowa, and First Community Bank & Trust, Traer, Iowa

Names of banks and type of transaction	Total assets
The National Bank of Waterloo, Waterloo, Iowa (13702), with	$ 357,270,000
and The First National Bank of Tama County, Dysart, Iowa (17293) with	12,650,000
and First Community Bank & Trust, Traer, Iowa, with	22,668,000
merged May 13, 1988, under charter and title of The National Bank of Waterloo. The merged bank at date of merger had	388,041,000

* * *

FIRST DAKOTA NATIONAL BANK,
Yankton, South Dakota, and American State Bank, Yankton, South Dakota

Names of banks and type of transaction	Total assets
First Dakota National Bank, Yankton, South Dakota (2068), with	$ 65,316,000
and American State Bank, Yankton, South Dakota, with	64,069,000
merged May 18, 1988, under charter and title of the former. The merged bank at date of merger had	129,385,000

COMPTROLLER'S DECISION

On April 1, 1988, application was made to the Office of the Comptroller of the Currency for prior written approval for First Dakota National Bank, Yankton, South Dakota, (FDNB) to purchase the assets and assume the liabilities of American State Bank, Yankton, South Dakota (ASB). This application was based on an agreement finalized between the proponents on January 29, 1988.

As of December 31, 1987, FDNB had total assets of $65 million and total deposits of $56 million and operated its main office in Yankton. On the same date, ASB had total assets of $64 million and total deposits of $63 million and operated its main office and one branch in Yankton and a branch in Vermillion.

The relevant geographic market for this proposal is the area including and immediately surrounding the cities of Yankton and Vermillion, where ASB operates and derives the bulk of its deposits. Although consummation of this proposal will eliminate some competition between the proponents, we find that the market will continue to remain highly competitive as numerous commercial banks will continue to offer banking services within the market. Consequently, consummation of this proposal will not have a significantly adverse effect on competition.

The Bank Merger Act requires this Office to consider ". . .the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of FDNB do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered satisfactory, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communitites, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

May 13, 1988

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

OLD BRAESWOOD NATIONAL BANK,
Houston, Texas, and National Bank of Texas, Houston, Texas

Names of banks and type of transaction	Total assets
Old Braeswood National Bank, Houston, Texas (20005), with	$ 37,418,000
and National Bank of Texas, Houston, Texas (17824), with	19,430,000
merged May 19, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

ALTON MERCANTILE BANK, NATIONAL ASSOCIATION,
Alton, Illinois, and Bethalto Mercantile Bank, National Association, Bethalto, Illinois

Names of banks and type of transaction	Total assets
Alton Mercantile Bank, National Association, Alton, Illinois (13464), with	$ 117,763,000
and Bethalto Mercantile Bank, National Association, Bethalto, Illinois (16569) with	19,686,000
merged May 20, 1988, under charter and title of the former. The merged bank at date of merger had	137,443,000

* * *

DEPOSIT GUARANTY NATIONAL BANK,
Jackson, Mississippi, and The Security Bank, Corinth, Mississippi

Names of banks and type of transaction	Total assets
Deposit Guaranty National Bank, Jackson, Mississippi (15548), with	$3,212,057,000
and The Security Bank, Corinth, Mississippi, with	109,834,000
merged May 20, 1988, under charter and title of the former. The merged bank at date of merger had	3,320,787,000

COMPTROLLER'S DECISION

On November 3, 1987, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge the Security Bank, Corinth, Mississippi (Security), into Deposit Guaranty National Bank, Jackson, Mississippi (Deposit). The application is based on an agreement finalized between Security and Deposit on October 28, 1987.

Deposit, a wholly owned subsidiary of Deposit Guaranty Corporation, had total assets of $3.2 billion and deposits of $2.6 billion as of June 30, 1987. Deposit operates 102 branch banking offices and 8 CBCT locations throughout the State of Mississippi. Deposit is the largest bank in the State.

Security, a wholly owned subsidiary of Second Security Corporation, had total assets of $110 million and deposits of $96 million as of June 30, 1987. Security operates four banking offices (one head office and three branch sites) in Alcorn County.

The relevant geographic market for this proposal is Alcorn County, the area where Security operates and derives the bulk of its deposits. Four commercial banks and three savings and loan associations compete in this market, with Security ranking second and holding 23 percent of total market deposits. Deposit does not compete in the relevant market. Accordingly, consummation of this proposal would merely substitute one competitor in the market with another. There would be no significant adverse effect on competition.

The Bank Merger Act requires this Office to consider ". . .the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find that the financial and managerial resources of both banks do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered satisfactory, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of its comminuty, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not sig-

nificantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

February 18, 1988

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

ZIONS FIRST NATIONAL BANK,
Salt Lake City, Utah, and Sandy State Bank, Sandy, Utah

Names of banks and type of transaction	*Total assets*
Zions First National Bank, Salt Lake City, Utah (4341), with	$2,293,857,000
and Sandy State Bank, Sandy, Utah, with	8,946,000
merged May 27, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST AMERICAN NATIONAL BANK OF NASHVILLE,
Nashville, Tennessee, and First and Peoples National Bank of Gallatin, Gallatin, Tennessee

Names of banks and type of transaction	*Total assets*
First American National Bank of Nashville, Nashville, Tennessee (3032), with	$3,269,986,000
and First and Peoples National Bank of Gallatin, Gallatin, Tennessee (5545) with	68,348,000
merged May 31, 1988, under charter of the former and title "First American National Bank." The merged bank at date of merger had	3,338,334,000

* * *

THE FIRST NATIONAL BANK OF OMAHA,
Omaha, Nebraska, and First Security Bank and Trust Co., Beatrice, Nebraska

Names of banks and type of transaction	*Total assets*
The First National Bank of Omaha, Omaha, Nebraska (209), with	$ 992,916,000
and First Security Bank and Trust Co., Beatrice, Nebraska, with	27,141,000
merged May 31, 1988, under charter and title of the former. The merged bank at date of merger had	1,016,224,000

* * *

FIRST REPUBLICBANK FORT WORTH, NATIONAL ASSOCIATION,
Fort Worth, Texas, and First RepublicBank Arlington, National Association, Arlington, Texas, and First RepublicBank Fort Worth East, National Association, Fort Worth, Texas, and First RepublicBank Gateway, National Association, Fort Worth, Texas, and First RepublicBank Richland, National Association, Fort Worth, Texas, and First RepublicBank Ridglea, Fort Worth, Texas, and First RepublicBank River Oaks, Fort Worth, Texas, and First RepublicBank South Fort Worth, Fort Worth, Texas, and First RepublicBank SW Arlington, National Association, Arlington, Texas, and First RepublicBank University Drive, Fort Worth, Texas

Names of banks and type of transaction	*Total assets*
First RepublicBank Fort Worth, National Association, Fort Worth, Texas (2349), with	$1,112,775,000
and First RepublicBank Arlington, National Association, Arlington, Texas (15744), with	72,874,000
and First RepublicBank Fort Worth East, National Association, Fort Worth, Texas (12696), with	167,134,000
and First RepublicBank Gateway, National Association, Fort Worth, Texas (14962), with	118,899,000
and First RepublicBank Richland, National Association, Fort Worth, Texas (16878), with	82,108,000
and First RepublicBank Ridglea, Fort Worth, Texas, with	327,437,000
and First RepublicBank River Oaks, Fort Worth, with	87,925,000
and First RepublicBank South Fort Worth, Fort Worth, Texas, with	93,321,000
and First RepublicBank SW Arlington, National Association, Arlington, Texas (16835), with	52,247,000
and First RepublicBank University Drive, Fort Worth, Texas, with	190,250,000
merged May 31, 1988, under charter and title of the First RepublicBank Fort Worth, National Association. The merged bank at date of merger had	2,280,341,000

* * *

FIRST UNION NATIONAL BANK OF FLORIDA,
Jacksonville, Florida, and Bank of Palm Beach and Trust Company, Palm Beach, Florida

Names of banks and type of transaction	*Total assets*
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$7,416,010,000
and Bank of Palm Beach and Trust Company, Palm Beach, Florida, with	220,741,000
merged May 31, 1988, under charter and title of the former. The merged bank at date of merger had	7,668,751,000

* * *

INDEPENDENT BANK-ROCKWALL, NATIONAL ASSOCIATION,
Rockwall, Texas, and Independent Bank-Wylie, National Association, Wylie, Texas

Names of banks and type of transaction	*Total assets*
Independent Bank-Rockwall, National Association, Rockwall, Texas (16156), with	$ 27,607,000
and Independent Bank-Wylie, National Association, Wylie, Texas (18365) with	11,345,000
merged May 31, 1988, under charter and title of the former. The merged bank at date of merger had	38,952,000

* * *

WELLS FARGO BANK, NATIONAL ASSOCIATION,
San Francisco, California, and Barclays Bank of California, San Francisco, California

Names of banks and type of transaction	*Total assets*
Wells Fargo Bank, National Association, San Francisco, California (1741), with	$41,363,000,000
and Barclays Bank of California, San Francisco, California, with	1,315,000,000
merged May 31, 1988, under charter and title of the former. The merged bank at date of merger had	42,502,000,000

COMPTROLLER'S DECISION

On March 4, 1988, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge Barclays Bank of California, San Francisco, California (Barclays), into Wells Fargo Bank, National Association, San Francisco, California (Wells). The application is based on an agreement finalized between Barclays and Wells on February 20, 1988.

Wells, a wholly owned subsidiary of Wells Fargo & Company, had total assets of $41.4 billion and total deposits of $32.4 billion as of December 31, 1987, and operated over 500 offices in the State of California. On the same date, Barclays, a wholly owned subsidiary of Barclays Corporation, had total assets of $1.31 billion, total deposits of $1.17 billion, and operated some 50 offices in the Los Angeles, Oxnard-Ventura, Palm Springs, San Francisco, and Santa Barbara areas of California.

The relevant geographic markets for this proposal consist of the five Ranally Metropolitan Areas (RMA) where Barclays operates its offices and form which it derives the bulk of its deposits. The five RMAs are as follows:

- The Los Angeles RMA consisting of the cities of Anaheim, Cerritos, Costa Mesa, Fountain Valley, Fullerton, Huntington Beach, Los Angeles, Malibu, Mission Viejo, Newport Beach, Orange, Santa Ana, and Tarzana.

- The Oxnard-Ventura RMA consisting of the cities of Oxnard, Thousand Oaks, and Ventura.

- The Palm Springs RMA consisting of the cities of Palm Springs and Rancho Mirage.

- The San Francisco RMA consisting of the cities of Campbell, Concord, Cupertino, Los Altos, Los Gatos, Mountain View, Oakland, Palo Alto, Portola Valley, San Francisco, San Jose, San Mateo, Saratoga, Santa Clara, South San Francisco, and Sunnyvale.

- The Santa Barbara RMA consisting of the cities of Carpenteria, Goleta, and Santa Barbara.

The OCC has used RMAs to analyze the competitive effects of the proposed merger because they are areas in which Barclays is in significant direct competition with other banks. Barclays derives a significant portion of its business from the cities which comprise these distinct, somewhat self-contained metropolitan areas.

California has one of the largest and most active thrift industries in the nation. Within the state, there are 210 savings and loans holding 49 percent of the state's deposit base. Included among their number are 13 of the state's 20 largest depository institutions and 8 of the 10 largest thrifts in the country. Over the past several years, the California legislature has expanded the powers of savings and loans to the point where they have the ability to compete fully with commercial banks. California thrifts, therefore, are direct competitors of commercial banks and are included in the competitive analysis below.

In the Los Angeles RMA, Wells ranks seventh and Barclays ranks thirty-fifth of 230 depository institutions. The resulting bank will rank sixth in deposit size after the merger with just over 4 percent of the market's deposits. Two hundred twenty-nine depository institutions will remain in the market operating 1,176 offices. The merger will not have an adverse competitive impact on the Los Angeles market.

In the Oxnard-Ventura RMA, Wells ranks eighth and Barclays ranks twenty-seventh of 37 depository institutions. The resulting bank will rank sixth in deposit size after the merger with approximately 5.5 percent of the market's deposits. Thirty-six depository institutions will remain in the market operating 115 offices. Consummation of the proposal will not have an adverse competitive effect on the Oxnard-Ventura market.

In the Palm Springs RMA, Wells ranks tenth and Barclays ranks seventeenth of 25 depository institutions. The resulting bank will rank eighth in deposit size after the merger with just under 6 percent of the market's deposits. Twenty-four depository institutions will remain in the market operating 41 offices. The proposed merger will not have an adverse competitive impact on the Palm Springs market.

In the San Francisco RMA, Wells ranks second and Barclays ranks twentieth of 136 depository institutions. The resulting bank will remain second in deposit size after the merger with approximately 19 percent of the market's deposits. One hundred thirty-five depository institutions will remain in the market operating 1,003 offices. The merger will not have an adverse competitive effect on the San Francisco market.

The Santa Barbara RMA has 26 depository institutions. Wells ranks eighth and Barclays ranks eighteenth in the market. The resulting bank will rank sixth in deposit size after the merger with under 6 percent of the market's deposits. Twenty-five depository institutions will remain in the market operating 83 offices. Consummation of the proposal will not have an adverse competitive impact on the Santa Barbara market.

The deposit concentration levels in all of the above markets are further mitigated by the ease of entry by firms that are not presently represented there.

The Bank Merger Act requires this Office to consider ". . .the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find that the financial and managerial resources of both banks do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered satisfactory, and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

April 29, 1988

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

LIBERTY NATIONAL BANK,
Longwood, Florida, and Liberty National Bank of Orlando, Orlando, Florida

Names of banks and type of transaction	*Total assets*
Liberty National Bank, Longwood, Florida (17553), with	$ 16,504,000
and Liberty National Bank of Orlando, Orlando, Florida (21002) with	3,997,000
merged June 1, 1988, under charter and title of the former. The merged bank at date of merger had	20,498,000

* * *

CITIZENS NATIONAL BANK AND TRUST COMPANY OF WAYNESBORO,
Waynesboro, Pennsylvania, and The Citizens National Bank of Greencastle, Greencastle, Pennsylvania

Names of banks and type of transaction	*Total assets*
Citizens National Bank and Trust Company of Waynesboro, Waynesboro, Pennsylvania (5832), with	$ 64,546,000
and The Citizens National Bank of Greencastle, Greencastle, Pennsylvania (5857) with	96,943,000
merged June 2, 1988, under charter of the former and title "Citizens National Bank of Southern Pennsylvania" in Greencastle. The merged bank at date of merger had	161,489,000

* * *

CITY NATIONAL BANK,
Houston, Texas, and Williamstown Bank, National Association, Houston, Texas

Names of banks and type of transaction	*Total assets*
City National Bank, Houston, Texas (20931), with	$ 36,847,000
and Williamstown Bank, National Association, Houston, Texas (17512) with	23,038,000
merged June 2, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST NATIONAL BANK IN BOULDER,
Boulder, Colorado, and Security Bank of Boulder, Boulder, Colorado

Names of banks and type of transaction	*Total assets*
First National Bank in Boulder, Boulder, Colorado (14021), with	$ 259,967,000
and Security Bank of Boulder, Boulder, Colorado, with	14,137,000
merged June 2, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE FIRST JERSEY NATIONAL BANK,
Jersey City, New Jersey, and The First Jersey National Bank/Fort Lee, Fort Lee, New Jersey

Names of banks and type of transaction	*Total assets*
The First Jersey National Bank, Jersey City, New Jersey (374), with	$2,356,434,000
and The First Jersey National Bank/Fort Lee, Fort Lee, New Jersey (14287) with	147,054,000
merged June 4, 1988, under charter and title of the former. The merged bank at date of merger had	2,503,488,000

* * *

BANK IV WICHITA, NATIONAL ASSOCIATION,
Wichita, Kansas, and Bank IV Charter, National Association, Wichita, Kansas

Names of banks and type of transaction	*Total assets*
Bank IV Wichita, National Association, Wichita, Kansas (12490), with	$1,438,756,000
and Bank IV Charter, National Association, Wichita, Kansas (20646) with	6,756,000
merged June 6, 1988, under charter and title of the former. The merged bank at date of merger had	1,443,051,000

* * *

FIRST BANK, (NATIONAL ASSOCIATION),
Milwaukee, Wisconsin, and Brown Deer Bank, Brown Deer, Wisconsin

Names of banks and type of transaction	Total assets
First Bank, (National Association), Milwaukee, Wisconsin (7347), with	$1,181,250,000
and Brown Deer Bank, Brown Deer, Wisconsin, with	83,210,000
merged June 6, 1988, under charter and title of the former. The merged bank at date of merger had	1,264,460,000

COMPTROLLER'S DECISION

On February 5, 1988, application was made to the Office of the Comptroller of the Currency for prior authorization to merge the Brown Deer Bank, Brown Deer, Wisconsin (Brown Deer), into First Bank (National Association) Milwaukee, Wisconsin (First Bank). This application was based on a agreement finalized between the proponents on October 27, 1987.

As of September 30, 1987, First Bank, a wholly owned subsidiary of First Bank Systems, Inc., had total assets of $1.2 billion, total deposits of $710 million and operated two offices in Milwaukee and La Crosse. On the same date, Brown Deer, a subsidiary of Capital One Corp., had total assets of $83 million, total deposits of $74 million and operated its main office in Brown Deer.

The relevant geographic market for this proposal is the area including and immediately surrounding Brown Deer, where Brown Deer operates its main office and derives the bulk of its deposits. The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a merger clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a merger that clearly has minimal or no adverse competitive effects.

The Bank Merger Act requires this Office to consider ". . .the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of both banks do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

May 6, 1988

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect on competition.

* * *

SHAWMUT BANK, NATIONAL ASSOCIATION,
Boston, Massachusetts, and Framingham Trust Company, Framingham, Massachusetts

Names of banks and type of transaction	Total assets
Shawmut Bank, National Association, Boston, Massachusetts (15509), with	$7,653,379,000
and Framingham Trust Company, Framingham, Massachusetts, with	389,631,000
merged June 9, 1988, under charter and title of the former. The merged bank at date of merger had	8,043,010,000

* * *

MBANK HOUSTON, NATIONAL ASSOCIATION,
Houston, Texas, and MBank Pasadena, National Association, Pasadena, Texas

Names of banks and type of transaction	Total assets
MBank Houston, National Association, Houston, Texas (15528), with	$4,638,828,000
and MBank Pasadena, National Association, Pasadena, Texas (21500) with	265,637,000
merged June 10, 1988, under charter and title of the former. The merged bank at date of merger had	4,998,880,000

* * *

COMMUNITY NATIONAL BANK,
Austin, Texas, and Century National Bank, Austin, Texas

Names of banks and type of transaction	Total assets
Community National Bank, Austin, Texas (15691), with	$ 105,935,000
and Century National Bank, Austin, Texas (17600) with	54,001,000
merged June 16, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE STILLMAN VALLEY NATIONAL BANK,
Stillman Valley, Illinois, and United Bank of Rochelle, Rochelle, Illinois

Names of banks and type of transaction	Total assets
The Stillman Valley National Bank, Stillman Valley, Illinois (14369), with	$ 76,330,000
and United Bank of Rochelle, Rochelle, Illinois, with	14,661,000
merged June 17, 1988, under charter and title of the former. The merged bank at date of merger had	90,791,000

* * *

THE CENTRAL NATIONAL BANK OF SAN ANGELO,
San Angelo, Texas, and Central National Bank-North, San Angelo, Texas, and Central National Bank-West, San Angelo, Texas

Names of banks and type of transaction	Total assets
The Central National Bank of San Angelo, San Angelo, Texas (10664), with	$ 262,022,000
and Central National Bank-North, San Angelo, Texas (18476) with	12,786,000
and Central National Bank-West, San Angelo, Texas (16965), with	20,329,000
merged June 20, 1988, under charter and title of The Central National Bank of San Angelo. The merged bank at date of merger had	295,137,000

* * *

FIRST NATIONAL BANK, WESTMINSTER,
Westminster, Colorado, and The Bank of Westminster, Westminster, Colorado

Names of banks and type of transaction	Total assets
First National Bank, Westminster, Westminster, Colorado (14947), with	$ 109,053,000
and The Bank of Westminster, Westminster, Colorado, with	6,521,000
merged June 22, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

ABRAMS CENTRE NATIONAL BANK,
Dallas, Texas, and Tri-Cities Bank & Trust, Glenn Heights, Texas

Names of banks and type of transaction	Total assets
Abrams Centre National Bank, Dallas, Texas (18120), with	$ 32,111,000
and Tri-Cities Bank & Trust, Glenn Heights, Texas, with	9,247,000
merged June 23, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

TEXAS NATIONAL BANK OF VICTORIA,
Victoria, Texas, and Texas National Bank, Victoria, Texas

Names of banks and type of transaction	*Total assets*
Texas National Bank of Victoria, Victoria, Texas (21837), with	$ NA
and Texas National Bank, Victoria, Texas, with	14,402,000
merged June 23, 1988, under charter and title of the former. The merged bank at date of merger had	

* * *

THE EMPIRE NATIONAL BANK OF CLARKSBURG,
Clarksburg, West Virginia, and First National Bank of Salem, Salem, West Virginia

Names of banks and type of transaction	*Total assets*
The Empire National Bank of Clarksburg, Clarksburg, West Virginia (7029), with	$ 100,211,000
and First National Bank at Salem, Salem, West Virginia (14136) with	12,971,000
merged June 30, 1988, under charter and title of the former. The merged bank at date of merger had	111,771,000

* * *

FIRST NATIONAL BANK OF FARMINGTON,
Bloomfield, New Mexico, and San Juan National Bank, Farmington, New Mexico

Names of banks and type of transaction	*Total assets*
First National Bank of Farmington, Bloomfield, New Mexico (6183), with	$ 222,411,000
and San Juan National Bank, Farmington, New Mexico (16566) with	13,981,000
merged June 30, 1988, under charter and title of the former. The merged bank at date of merger had	236,692,000

COMPTROLLER'S DECISION

On March 8, 1988, application was made to the Office of the Comptroller of the Currency for prior authorization to merge San Juan National Bank, Farmington, New Mexico (San Juan NB), into The First National Bank of Farmington, Farmington, New Mexico (First National). This application was based on an agreement finalized between the proponents on January 13, 1988.

As of January 31, 1988, First National, a wholly owned subsidiary of First Place Financial Corporation, had total deposits of $172 million and operated eight offices in San Juan County. On the same date, San Juan NB had total deposits of $13 million and operated a single office.

The relevant geographic market for this proposal is the area including and immediately surrounding Farmington, where both proponents operate and derive the bulk of their deposits. Within the relevant market, five banks and two savings and loan associations operate 21 offices and hold total deposits of approximately $518 million. First National and San Juan NB are the largest and smallest depositories in the market, holding 33 and 2 percent of total deposits, respectively. While the proposed merger would eliminate some direct competition in the market, any adverse effects would be mitigated by the presence of several other banking alternatives, including the presence of three of the state's largest depository institutions.

The Bank Merger Act requires this Office to consider ". . .the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of First National do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

May 17, 1988

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

FIRST NATIONAL BANK OF KIRKSVILLE,
Kirksville, Missouri, and Citizens Savings Bank of Browning/Milan, Milan, Missouri

Names of banks and type of transaction	Total assets
First National Bank of Kirksville, Kirksville, Missouri (5107), with	$ 51,704,000
and Citizens Savings Bank of Browning/Milan, Milan, Missouri, with	14,484,000
merged June 30, 1988, under charter and title of the former. The merged bank at date of merger had	65,740,000

* * *

THE FIRST NATIONAL BANK OF VAN ALSTYNE,
Van Alstyne, Texas, and First National Bank, Sherman, Texas

Names of banks and type of transaction	Total assets
The First National Bank of Van Alstyne, Van Alstyne, Texas (4289), with	$ 46,960,000
and First National Bank, Sherman, Texas (16830) with	24,812,000
merged June 30, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST UNION NATIONAL BANK OF FLORIDA,
Jacksonville, Florida, and Commercial Bank & Trust Company, Miami, Florida, and Commercial Bank of Kendall, Miami, Florida, and Merchants Bank of Miami, West Miami, Florida

Names of banks and type of transaction	Total assets
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$7,668,751,000
and Commercial Bank & Trust Company, Miami, Florida, with	317,998,000
and Commercial Bank of Kendall, Miami, Florida, with	146,558,000
and Merchants Bank of Miami, West Miami, Florida, with	170,876,000
merged June 30, 1988, under charter and title of the First Union National Bank of Florida. The merged bank at date of merger had	8,336,902,000

* * *

GROOS BANK, NATIONAL ASSOCIATION,
San Antonio, Texas, and Mercantile Bank & Trust, San Antonio, Texas

Names of banks and type of transaction	Total assets
Groos Bank, National Association, San Antonio, Texas (10148), with	$ 140,834,000
and Mercantile Bank & Trust, San Antonio, Texas, with	79,126,000
merged June 30, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE HOMER NATIONAL BANK,
Homer, Louisiana, and Claiborne Bank & Trust Company, Homer, Louisiana

Names of banks and type of transaction	Total assets
The Homer National Bank, Homer, Louisiana (4216), with	$ 78,902,000
and Claiborne Bank & Trust Company, Homer, Louisiana, with	13,076,000
merged June 30, 1988, under charter of the former and title "Homer National Bank." The merged bank at date of merger had	NA

* * *

Tables

NOTE: The statistical tables are produced by the Applications Development Division and the structural tables are produced by the Bank Organization and Structure Department.

Changes in the structure of the national banking system, January 1 to June 30, 1988

	In operation Dec. 31, 1987	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation June 30, 1988
						Converted to state banks	Merged with state banks	
Alabama	55	2	0	0	0	1	0	56
Alaska	3	0	0	0	0	0	0	3
Arizona	15	0	0	0	0	0	0	15
Arkansas	84	1	0	0	0	0	0	85
California	172	4	0	0	1	2	1	172
Colorado	230	3	2	0	0	0	1	230
Connecticut	18	0	0	0	0	0	0	18
Delaware	17	1	0	0	0	0	0	18
District of Columbia	21	1	0	0	0	0	0	22
Florida	160	5	4	0	0	0	2	159
Georgia	55	3	1	0	0	0	0	57
Hawaii	3	0	0	0	0	0	0	3
Idaho	7	0	0	0	0	0	0	7
Illinois	389	2	7	0	0	2	1	381
Indiana	101	0	1	0	0	0	0	100
Iowa	103	0	1	0	0	0	0	102
Kansas	167	0	1	0	0	0	0	166
Kentucky	79	0	0	0	0	0	0	79
Louisiana	62	0	0	0	0	0	2	60
Maine	7	0	0	0	0	0	0	7
Maryland	25	0	0	0	0	0	0	25
Massachusetts	40	2	1	0	0	0	0	41
Michigan	88	0	2	0	0	2	1	83
Minnesota	199	0	28	0	0	0	0	171
Mississippi	29	0	0	0	0	0	0	29
Missouri	99	4	3	0	0	1	0	99
Montana	59	0	0	0	0	2	0	57
Nebraska	116	0	0	0	0	0	3	113
Nevada	7	0	0	0	0	0	0	7
New Hampshire	20	0	0	0	0	0	0	20
New Jersey	68	2	5	0	0	0	0	65
New Mexico	42	0	1	0	0	0	0	41
New York	107	0	0	0	0	0	0	107
North Carolina	15	0	0	0	0	0	0	15
North Dakota	41	0	12	0	0	0	0	29
Ohio	138	1	1	0	0	0	1	137
Oklahoma	202	0	2	0	0	2	2	196
Oregon	8	0	0	0	0	0	0	8
Pennsylvania	173	0	2	0	0	0	1	170
Rhode Island	5	0	0	0	0	0	0	5
South Carolina	22	0	0	0	0	0	0	22
South Dakota	24	0	0	0	0	0	0	24
Tennessee	58	2	1	0	0	0	3	56
Texas	957	7	46	0	1	1	10	906
Utah	7	0	0	0	0	0	0	7
Vermont	12	0	0	0	0	0	0	12
Virginia	50	3	0	0	0	0	0	53
Washington	23	1	2	0	0	0	0	22
West Virginia	94	0	1	0	0	0	0	93
Wisconsin	121	0	1	0	0	1	0	119
Wyoming	37	0	0	0	0	0	0	37
Puerto Rico	1	0	0	0	0	0	0	1
United States	4,635	44	125	0	2	14	28	4,510

NOTES: Organized and opened for business includes all state banks converted to national banks as well as all newly formed national banks. The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a nationally chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a nationally chartered bank.
Voluntary liquidations include only straight liquidations of national banks. No liquidations pursuant to a purchase and assumption transaction are included in this total. Liquidations resulting from purchase and assumptions are included in the "merged" columns.
Payouts include all failed national banks where FDIC is named receiver and no other depository institution is named as successor.
The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a state chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a state chartered bank.

Federal branches and agencies of foreign banks

	Federal branches and agencies—open January 1, 1988	Applications, January 1 to June 30 1988				Federal branches and agencies opened January 1 to June 30, 1988	Federal branches and agencies closed January 1 to June 30, 1988	Federal branches and agencies—open June 30 1988
		Received	Approved	Disapproved	Withdrawn			
Total de novo	73	3	2	0	0	0	2	71
Federal branch								
California	3	0	0	0	0	0	0	3
District of Columbia	1	0	0	0	0	0	0	1
Illinois	1	0	0	0	0	0	0	1
New York	46	2	1	0	0	0	1	45
Limited federal branch								
California	7	1	1	0	0	0	0	7
District of Columbia	2	0	0	0	0	0	0	2
Illinois	4	0	0	0	0	0	0	4
New York	6	0	0	0	0	0	0	6
Washington	1	0	0	0	0	0	0	1
Federal agency								
Florida	1	0	0	0	0	0	0	1
Louisiana	1	0	0	0	0	0	1	0
Total conversions	13	0	0	0	0	0	0	13
State agency to federal branch								
California	2	0	0	0	0	0	0	2
New York	9	0	0	0	0	0	0	9
State agency to limited federal branch								
California	1	0	0	0	0	0	0	1
New York	1	0	0	0	0	0	0	1

Applications for national bank charters, January 1 to June 30, 1988

	Received	*Approved*	*Denied*	*Charters issued*	*State-chartered banks converted to national banks*	*Trust companies**	*Nonbank banks**
Alabama	0	0	0	1	1	0	0
Alaska	0	0	0	0	0	0	0
Arizona	0	0	0	0	0	0	0
Arkansas	1	0	0	0	1	0	0
California	2	3	2	4	0	1	0
Colorado	0	10	0	1	2	0	0
Connecticut	0	1	0	0	0	0	0
Delaware	1	0	0	1	0	0	0
District of Columbia	1	1	0	1	0	1	0
Florida	7	13	0	5	0	0	0
Georgia	4	2	1	3	0	0	0
Hawaii	0	0	0	0	0	0	0
Idaho	0	0	0	0	0	0	0
Illinois	0	0	0	0	2	0	0
Indiana	0	0	0	0	0	0	0
Iowa	0	0	0	0	0	0	0
Kansas	0	1	0	0	0	0	0
Kentucky	1	0	0	0	0	0	0
Louisiana	0	0	0	0	0	0	0
Maine	0	0	0	0	0	0	0
Maryland	1	0	0	0	0	0	0
Massachusetts	0	0	0	1	1	0	0
Michigan	0	0	0	0	0	0	0
Minnesota	0	0	0	0	0	0	0
Mississippi	0	0	0	0	0	0	0
Missouri	0	3	0	3	1	0	0
Montana	0	0	0	0	0	0	0
Nebraska	2	0	0	0	0	0	0
Nevada	0	0	0	0	0	0	0
New Hampshire	0	0	0	0	0	0	0
New Jersey	0	0	0	2	0	0	0
New Mexico	0	0	0	0	0	0	0
New York	1	0	0	0	0	0	0
North Carolina	2	0	0	0	0	0	0
North Dakota	0	0	0	0	0	0	0
Ohio	5	1	0	1	0	0	0
Oklahoma	0	0	1	0	0	0	0
Oregon	0	0	0	0	0	0	0
Pennsylvania	1	1	1	0	0	0	0
Rhode Island	0	1	0	0	0	0	0
South Carolina	1	4	0	0	0	0	0
South Dakota	0	0	0	0	0	0	0
Tennessee	0	1	0	0	2	0	0
Texas	0	1	0	4	3	0	0
Utah	0	0	0	0	0	0	0
Vermont	0	0	0	0	0	0	0
Virginia	1	0	0	2	1	0	0
Washington	1	2	0	0	1	0	0
West Virginia	0	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0	0
Wyoming	0	0	0	0	0	0	0
Total	32	45	5	29	15	2	0

*These figures are included in the figures for received, approved, denied and charters issued

Applications for new national bank charters, approved and rejected, January 1 to June 30, 1988

	Approved	Rejected
CALIFORNIA		
Continental National Bank, Anaheim	______	May 10
Central Coast National Bank, Arroyo Grande	February 29	______
Los Angeles National Bank Association, Los Angeles	June 17	______
United Citizens Bank, National Association, Los Angeles	June 30	______
Harbor National Bank, West Sacramento	______	June 17
COLORADO		
Firstbank at Arapahoe/Holly, National Association, Arapahoe County	June 3	______
Firstbank at University/Dry Creek, National Association, Arapahoe County	June 3	______
Firstbank at Buckley/Quincy, National Association, Aurora	June 3	______
Firstbank at Chambers/Mississippi, National Association, Aurora	June 3	______
Firstbank at 30th/Arapahoe, National Association, Boulder	June 3	______
Firstbank of Table Mesa, National Association, Boulder	June 3	______
Firstbank at Evans/Monaco, National Association, Denver	June 3	______
Firstbank of Southmoor Park, National Association, Denver	June 3	______
Firstbank of Green Mountain, National Association, Lakewood	June 3	______
Firstbank of Applewood, National Association, Wheat Ridge	June 3	______
CONNECTICUT		
Liberty National Bank, Danbury	January 11	______
DISTRICT OF COLUMBIA		
Greyhound Commercial Bank, Washington	May 29	______
FLORIDA		
Security National Bank of Seminole County, Altamonte Springs	March 9	______
Liberty National Bank, Bradenton	January 29	______
First National Bank of Southwest Florida, Cape Coral	January 14	______
First National Bank of Osceola County, Kissimmee	June 9	______
Security National Bank of Brevard, Melbourne	May 31	______
Community National Bank of Naples, Naples	January 29	______
University National Bank, Orlando	March 18	______
First Florida Bank of Orange County, National Association, Orlando	January 7	______
Island National Bank of Palm Beach, Palm Beach	January 26	______
Citizens National Bank and Trust Company, Port Richey	February 17	______
Enterprise National Bank of Tampa, Tampa	April 29	______
Jupiter-Tequesta National Bank, Tequesta	March 15	______
The Enterprise Bank, National Association, Winter Park	June 22	______
GEORGIA		
First National Bank of Coastal Georgia, Brunswick	______	May 23
Security National Bank, Macon	April 29	______
First National Bank, St. Marys	June 20	______
KANSAS		
Banker's Bank of Kansas, National Association, Wichita	April 28	______
MISSOURI		
U S National Bank of Clayton, Clayton	January 13	______
Ozarks National Bank, Lake Ozark	April 19	______
Commerce Bank - Nixa, National Association, Nixa	February 19	______
NEBRASKA		
Norwest Bank Nebraska Lincoln, National Association, Lincoln	April 20	______
OHIO		
Standing Stone National Bank, Lancaster	February 10	______
OKLAHOMA		
National Bank of Dewey, Dewey	______	April 25
PENNSYLVANIA		
First National Bank, Easton Pennsylvania, Easton	______	June 29
Security National Bank, Pottstown	April 27	______
RHODE ISLAND		
Ocean State National Bank, Middletown	May 23	______

Applications for new national bank charters, approved and rejected, January 1 to June 30, 1988 — continued

	Approved	Rejected
SOUTH CAROLINA		
First Carolina Bank, National Association, Charleston	June 16	—
Greenwood National Bank, Greenwood	June 29	—
Midlands National Bank, Prosperity	April 18	—
Spartanburg National Bank, Spartanburg	February 17	—
TENNESSEE		
First National Bank of Knoxville, Knoxville	March 8	—
TEXAS		
Collecting Bank National Association, Houston	January 15	—
WASHINGTON		
Grant National Bank, Ephrata	May 19	—
First National Bank of Port Orchard, Port Orchard	January 26	—
The Commerce Bank of Washington, National Association, Seattle	February 29	—

New national bank charters issued, January 1 to June 30, 1988

Title and location of bank	Charter number	Date open
ALABAMA		
Gulf National Bank, Orange Beach	21463	January 4
CALIFORNIA		
Citizens Bank of Paso Robles, National Association, Paso Robles	21449	March 31
Northern Trust of California, National Association, Santa Barbara	21594	January 5
Hacienda National Bank, Santa Maria	21519	January 19
First National Bank of Ventura, Ventura	21508	February 16
COLORADO		
Firstbank of Republic Plaza, National Association, Denver	18751	April 8
DELAWARE		
Midlantic National Bank/Delaware, Wilmington	21612	January 1
DISTRICT OF COLUMBIA		
First Liberty National Bank, Washington	18739	February 18
FLORIDA		
Merchant National Bank, Fort Myers	21546	March 25
Osceola National Bank, Kissimmee	21320	February 3
Security National Bank of Osceola, Kissimmee	21590	June 6
The Huntington Trust Company of Florida, National Association, Naples	21553	June 1
Community National Bank of Sarasota County, Venice	21390	February 16
GEORGIA		
Georgia National Bank, Athens	21529	January 4
Carroll National Bank, Carrollton	21558	April 4
The Summit National Bank, Dekalb County	21484	March 10
MASSACHUSETTS		
Boston Harbor Trust Company, National Association, Boston	21452	January 4
MISSOURI		
First Business Bank of Kansas City, National Association, Kansas City	21489	May 27
Ozarks National Bank, Lake Ozark	18757	June 13
Commerce Bank - Nixa, National Association, Nixa	18753	May 23
NEW JERSEY		
PNC National Bank of New Jersey, Cherry Hill	21548	June 15
Suburban National Bank, Hillsboro Township	21471	January 13
OHIO		
The Huntington Trust Company, National Association, Columbus	21416	February 1
TEXAS		
Fair Oaks National Bank, Bexar County	21091	March 7
Collecting Bank National Association, Houston	21659	April 13
Chemical Bank Texas, National Association, Richardson	18639	June 9
Texas National Bank of Victoria, Victoria	21837	June 23
VIRGINIA		
Virginia Commerce Bank, National Association, Arlington	21495	May 16
Bank 2000 of Reston, National Association, Reston	21431	March 1

State-chartered banks converted to national banks, January 1 to June 30, 1988

Title and location of bank	*Effective date*	*Total assets*
ALABAMA		
Southtrust Bank of Marshall County, National Association (21738), conversion of Southtrust Bank of Sand Mountain, Boaz	May 2	$ 1,171,000
ARKANSAS		
Peoples National Bank (21667), conversion of Peoples Bank, Mammoth Springs	May 17	21,327,000
COLORADO		
United Bank of Grand Junction-Downtown, National Association (18749), conversion of United Bank of Grand Junction-Downtown, Grand Junction	February 15	100,781,000
Peoples National Bank (21717), conversion of The El Paso County Bank, Monument	May 31	24,000,000
ILLINOIS		
UMB Bank of Illinois, National Association (21727), conversion of First County Bank of Maryville, Maryville	March 17	18,402,000
American National Bank of Melrose Park (21601), conversion of Merchants and Manufacturers State Bank, Melrose Park	March 1	52,059,000
MASSACHUSETTS		
University Bank and Trust Company, National Association (21757), conversion of University Bank and Trust Company, Newton	June 2	256,039,000
MISSOURI		
Mercantile Bank of St. Charles County, National Association (21684), conversion of Mercantile Bank of St. Charles County, St. Charles	January 21	73,680,000
TENNESSEE		
Third National Bank in Loudon County (21745), conversion of Bank of Loudon County, Lenoir City	April 20	71,742,000
Third National Bank in Hamblen County (21761), conversion of Hamilton Bank of Morristown, Morristown	May 27	24,894,000
TEXAS		
NBC Bank - Boerne, National Association (21720), conversion of NBC Bank - Boerne, Boerne	April 30	73,967,000
MTrust Corp, National Association (21665), conversion of MTrust Corp, Dallas	January 1	12,632,000
NBC Bank - Uvalde, National Association (21721), conversion of NBC Bank - Uvalde, Uvalde	April 30	48,817,000
VIRGINIA		
Salem Bank and Trust, National Association (21516), conversion of Salem Bank and Trust, Salem	January 1	3,063,000
WASHINGTON		
Bank of Washington, National Association (21735), conversion of Bank of Washington, Bellingham	May 2	192,000,000

Mergers, January 1 to June 30, 1988*

	Transactions involving two or more operating banks	Transactions involving a single operating bank	Total
Received	139	44	183
Approved	135	48	183
Denied	0	0	0
Abandoned	5	4	9
Consummated	135	49	184

*Mergers is a generic term which includes mergers, consolidations and purchases and assumptions.

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988
(Dollar amounts in thousands)

Date consummated	Merging banks / Resulting bank	Total assets
	ALABAMA	
	First National Bank of Aliceville, Aliceville (15535)	$ 23,283
	Bank of Gordo, Gordo	22,318
April 1	First National Bank of Aliceville, Aliceville (15535)	45,601
	CALIFORNIA	
	Mission Bank, Riverside	41,000
	Riverside National Bank, Riverside (15489)	142,000
May 5	Riverside National Bank, Riverside (15489)	182,000
	National Bank of Southern California, Santa Ana (17623)	123,859
	Pacific Regency Bank, El Toro	12,800
May 5	National Bank of Southern California, Santa Ana (17623)	136,659
	Wells Fargo Bank, National Association, San Francisco (1741)	41,363,000
	Barclays Bank of California, San Francisco (1741)	1,315,000
May 31	Wells Fargo Bank, National Association, San Francisco (1741)	42,502,000
	COLORADO	
	City Center National Bank, Aurora (17584)	4,718
	Security Bank of Denver, National Association, Denver (15009)	16,987
March 10	City Center National Bank, Aurora (17584)	NA
	United Bank of Cherry Creek, National Association, Denver (17361)	55,954
	United Bank of University Hills, National Association, Denver (20531)	10,265
April 29	United Bank of Cherry Creek, National Association, Denver (17361)	66,219
	First National Bank in Boulder, Boulder (14021)	259,967
	Security Bank of Boulder, Boulder	14,137
June 2	First National Bank in Boulder, Boulder (14021)	NA
	First National Bank, Westminster, Westminster (14947)	109,053
	The Bank of Westminster, Westminster	6,521
June 22	First National Bank, Westminster, Westminster (14947)	NA
	CONNECTICUT	
	The Connecticut National Bank, Hartford (1338)	9,526,174
	Shawmut Fidelity Bank, Stamford	273,309
	Shawmut Home Bank, Meriden	480,129
March 18	The Connecticut National Bank, Hartford (1338)	9,526,174
	FLORIDA	
	Republic National Bank of Miami, Miami (15555)	997,000
	The Trust Bank, Hialeah	160,000
January 29	Republic National Bank of Miami, Miami (15555)	1,157,000
	Sun Bank/South Florida, National Association, Fort Lauderdale (14732)	1,789,453
	Mellon Bank (FL), National Association, Boca Raton (17168)	1,570
January 31	Sun Bank/South Florida, National Association, Fort Lauderdale (14732)	1,789,616
	Sun Bank/Sarasota County, National Association, Sarasota (20982)	192,200
	Mellon Bank (FL) #2, National Association, Sarasota (21062)	682
January 31	Sun Bank/Sarasota County, National Association, Sarasota (20982)	192,137
	Chase Bank of Florida, National Association, St. Petersburg (21177)	379,942
	The Chase Manhattan Trust Company of Florida, National Association, Palm Beach (17674)	2,455
March 1	Chase Bank of Florida, National Association, St. Petersburg (21177)	382,397
	Bank of Boston - Florida, National Association, Palm Beach (17277)	220,000
	First Trust Company of Florida, National Association, Sarasota (17441)	80,000
March 25	Bank of Boston - Florida, National Association, Palm Beach (17277)	300 000
	First Union National Bank of Florida, Jacksonville (17695)	7,251 408
	The First State Bank of Lantana, Lantana	134,602
April 30	First Union National Bank of Florida, Jacksonville (17695)	7,416,010
	First Union National Bank of Florida, Jacksonville (17695)	7,416,010
	Bank of Palm Beach and Trust Company, Palm Beach	220,741
May 31	First Union National Bank of Florida, Jacksonville (17695)	7,668,751
	Liberty National Bank, Longwood (17553)	16,504
	Liberty National Bank of Orlando, Orlando (21002)	3,997
June 1	Liberty National Bank, Longwood (17553)	20,498
	First Union National Bank of Florida, Jacksonville (17695)	7,668 751
	Commercial Bank & Trust Company, Miami	317 998
	Commercial Bank of Kendall, Miami	146 558
	Merchants Bank of Miami, West Miami	170,876
June 30	First Union National Bank of Florida, Jacksonville (17695)	8 336 902

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* *Resulting bank*	*Total assets*
	GEORGIA	
	The First National Bank of Atlanta, Atlanta (1559)	7,373,331
	The First National Bank of Dalton, Dalton (3907)	285,944
January 1	The First National Bank of Atlanta, Atlanta (1559)	7,656,859
	The First National Bank of Altanta, Atlanta (1559)	7,179,165
	North Georgia Bank, Canton	59,238
March 31	The First National Bank of Atlanta, Atlanta (1559)	7,238,403
	ILLINOIS	
	The Citizens Bank of Decatur, National Association, Decatur (21642)	47,118
	The Citizens National Bank of Decatur, Decatur (4576)	212,370
January 29	The Citizens National Bank of Decatur, Decatur (21642)	257,848
	The Illinois National Bank of Springfield, Springfield (3548)	344,565
	Sangamon Bank and Trust, Springfield	21,821
January 29	The Illinois National Bank of Springfield, Springfield (3548)	366,386
	The First National Bank of Lake Forest, Lake Forest (8937)	395,130
	First National Bank of Lake Bluff, Lake Bluff (15502)	45,251
	Lake Forest National Bank, Lake Forest (15886)	23,461
February 15	Northern Trust Bank/Lake Forest, National Association, Lake Forest (8937)	461,950
	The First National Bank of Springfield, Springfield (205)	334,605
	Land of Lincoln Bank, Springfield	65,275
March 12	The First National Bank of Springfield, Springfield (205)	399,880
	Northern Trust Bank/O'Hare, National Association, Chicago (14888)	348,599
	Northern Trust Bank/Woodfield, Schaumburg	70,845
March 21	Northern Trust Bank/O'Hare, National Association, Chicago (14888)	419,444
	First Midwest Bank/Moline, A National Association, Moline (13660)	164,131
	First Midwest Bank/Knox County, National Association, Galesburg (3287)	84,534
March 31	First Midwest Bank/Western Illinois, National Association, Moline (13660)	248,665
	The Farmers National Bank of Geneseo, Geneseo (2332)	98,331
	Bank of Atkinson, National Association, Atkinson (18001)	16,897
April 25	The Farmers National Bank of Geneseo, Geneseo (2332)	115,107
	The City National Bank of Murphysboro, Murphysboro (4804)	77,585
	City Bank of Carbondale, Carbondale	19,878
April 29	The City National Bank, Murphysboro (4804)	97,464
	First Midwest Bank/Morris, A National Association, Morris (1773)	114,891
	First Midwest Bank/Illinois, A National Association, Streator (2681)	489,242
May 6	First Midwest Bank/Illinois, National Association, Morris (1773)	604,133
	Alton Mercantile Bank, National Association, Alton (13464)	117,763
	Bethalto Mercantile Bank, National Association, Bethalto (16569)	19,686
May 20	Alton Mercantile Bank, National Association, Alton (13464)	137,443
	The Stillman Valley National Bank, Stillman Valley (14369)	76,330
	United Bank of Rochelle, Rochelle	14,661
June 17	The Stillman Valley National Bank, Stillman Valley (14369)	90,791
	INDIANA	
	Liberty National Bank and Trust Company of Indiana, Corydon (21327)	70,352
	First Indiana Bank, National Association, Milltown (8650)	6,740
March 17	Liberty National Bank and Trust Company of Indiana, Corydon (21327)	77,611
	IOWA	
	The National Bank of Waterloo, Waterloo (13702)	357,270
	The First National Bank of Tama County, Dysart (17293)	12,650
	First Community Bank & Trust, Traer	22,668
May 13	The National Bank of Waterloo, Waterloo (13702)	388,041
	KANSAS	
	Peoples National Bank & Trust, Ottawa (1910)	47,302
	Bank of Louisburg, Louisburg	20,672
February 3	Peoples National Bank & Trust, Ottawa (1910)	NA
	The First National Bank and Trust Company of Salina, Salina (4742)	135,408
	The Home State Bank, Russell	59,884
March 3	The First National Bank and Trust Company of Salina, Salina (4742)	NA
	First National Bank & Trust Company, El Dorado (6494)	81,187
	Burns State Bank, Burns	3,620
April 15	First National Bank & Trust Company, El Dorado (6494)	84,640
	Bank IV Wichita, National Association, Wichita (12490)	1,438,756
	Bank IV Charter, National Association, Wichita (20646)	6,756
June 6	Bank IV Wichita, National Association, Wichita (12490)	1,443,051

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	LOUISIANA	
	Hibernia National Bank, New Orleans (13688)	4,799,070
	United Mercantile Bank, Shreveport	86,324
January 21	Hibernia National Bank, New Orleans (13688)	NA
	The Homer National Bank, Homer (4216)	78,902
	Claiborne Bank & Trust Company, Homer	13,076
June 30	Homer National Bank, Homer (4216)	NA
	MASSACHUSETTS	
	Bank of New England - West, National Association, Springfield (308)	1,311,434
	Berkshire Bank & Trust Company, Pittsfield	209,268
March 11	Bank of New England - West, National Association, Springfield (308)	1,614,439
	Shawmut Bank of Southeastern Massachusetts, National Association, New Bedford (261)	284,285
	Shawmut Bank of Cape Cod, National Association, Orleans (736)	121,689
March 11	Shawmut Bank of Southeastern Massachusetts, National Association, New Bedford (261)	405,894
	Shawmut Bank, National Association, Boston (15509)	7,653,379
	Framingham Trust Company, Framingham	389,631
June 9	Shawmut Bank, National Association, Boston (15509)	8,043,010
	MICHIGAN	
	National Bank of Detroit, Detroit (13671)	14,775,028
	Pontiac State Bank, Pontiac	678,127
March 31	National Bank of Detroit, Detroit (13671)	15,453,155
	First of America Bank - Detroit, National Association, Detroit (14925)	1,035,242
	First of America Bank - Oakland Macomb, National Association, Pontiac (13739)	612,649
	First of America Bank - Rochester, National Association, Rochester (15274)	65,815
	First of America Bank - Wayne Oakland, Troy	731,798
April 1	First of America Bank - Metro, National Association, Detroit (14925)	2,429,112
	First of America Bank - Marquette, National Association, Marquette (12027)	98,914
	First of America Bank - Menominee, Menominee	35,165
April 22	First of America Bank-Marquette, National Association, Marquette (12027)	134,079
	MINNESOTA	
	Norwest Bank Minneapolis, National Association, Minneapolis (2006)	6,587,035
	Norwest Bank Bloomington N.A., Bloomington (14681)	327,474
	Norwest Bank Calhoun-Isles, National Association, Minneapolis (13140)	171,682
	Norwest Bank Camden, National Association, Minneapolis (20630)	124,011
	Norwest Bank Central, National Association, Minneapolis (13108)	202,443
	Norwest Bank East St. Paul, National Association, St. Paul (21126)	102,208
	Norwest Bank Hastings, National Association, Hastings (11212)	75,280
	Norwest Bank Jordan, National Association, Jordan (21128)	27,123
	Norwest Bank Maple Grove, National Association, Maple Grove (20632)	126,635
	Norwest Bank Metro South, National Association, Minneapolis (13066)	83,855
	Norwest Bank Metro West, National Association, Hopkins (12518)	256,613
	Norwest Bank Midland, National Association, Minneapolis (9409)	309,254
	Norwest Bank Old St. Anthony, National Association, Minneapolis (13127)	98,295
	Norwest Bank South St. Paul, National Association, South St. Paul (6732)	93,293
	Norwest Bank St. Paul, National Association, St. Paul (12922)	552.203
	Norwest Bank Stillwater, National Association, Stillwater (20634)	51,473
	Norwest Bank University-Midway, National Association, Minneapolis (14517)	67,581
January 1	Norwest Bank Minnesota, National Association, Minneapolis (2006)	8,742,206
	Norwest Bank Moorhead, National Association, Moorhead (13297)	114,512
	Norwest Bank Fergus Falls, National Association, Fergus Falls (2648)	83,644
	Norwest Bank Thief River Falls, National Association, Thief River Falls (21125)	58,309
January 1	Norwest Bank Minnesota West, National Association, Moorhead (13297)	251,991
	Norwest Bank Mesabi, National Association, Virginia (14536)	126,940
	Norwest Bank Ely, National Association, Ely (8592)	40,708
April 1	Norwest Bank Minnesota Mesabi, National Association, Virginia (14536)	165,748
	Norwest Bank Marshall, National Association, Marshall (4614)	109,059
	Norwest Bank Worthington, National Association, Worthington (21127)	54 149
May 1	Norwest Bank Minnesota Southwest, National Association, Marshall (4614)	161 787
	First Bank N.A.-Duluth, Duluth (9327)	388 900
	The First National Bank of Cloquet, Cloquet (5405)	63,135
May 1	First Bank North, National Association, Duluth (9327)	451 293
	First Bank, N.A.- St Cloud, National Association, St. Cloud (16744)	76 953
	First National Bank in Alexandria, Alexandria (12864)	82 803
	The First National Bank of Brainerd, Brainerd (2590)	99 058
	First National Bank of Willmar, Willmar (13401)	85 651
May 1	First Bank Central, National Association, St Cloud (16744)	344 465

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	The First National Bank of Rochester, Rochester (579)	257,257
	First Bank (N A) - Albert Lea, Albert Lea (13422)	64,014
	The First National Bank of Austin, Austin (1690)	136,052
	The First National Bank of Owatonna, Owatonna (1911)	76,663
May 1	First Bank Southeast, National Association, Rochester (579)	532,036
	First National Bank of Mankato, National Association, Mankato (1683)	119,709
	The First National Bank of Fairmont, Fairmont (4936)	57,734
May 1	First Bank South, National Association, Mankato (1683)	177,443
	MISSISSIPPI	
	Deposit Guaranty National Bank, Jackson (15548)	3,212,057
	The Security Bank, Corinth	109,834
May 20	Deposit Guaranty National Bank, Jackson (15548)	3,320,787
	MISSOURI	
	Commerce Bank of Kansas City, National Association, Kansas City (15985)	1,397,214
	Commerce Bank of Lee's Summit, National Association, Lee's Summit (17946)	16,021
January 1	Commerce Bank of Kansas City, National Association, Kansas City (15985)	1,411,778
	Mercantile Bank of St. Charles County, National Association, St. Charles (21684)	76,470
	Mercantile Bank, National Association, Clayton (21073)	4,363,928
March 25	Mercantile Bank, National Association, Clayton (21684)	4,434,250
	Centerre Bank of South Kansas City, National Association, Kansas City (21523)	113,893
	Centerre Bank of Kansas City, National Association, Kansas City (11472)	608,350
March 31	Centerre Bank of Kansas City, National Association, Kansas City (21523)	722,237
	First National Bank of Kirksville, Kirksville (5107)	51,704
	Citizens Savings Bank of Browning/Milan, Milan	14,484
June 30	First National Bank of Kirksville, Kirksville (5107)	65,740
	NEBRASKA	
	First National Bank of Sidney, Sidney (18339)	7,532
	Dalton State Bank, Dalton	12,228
January 1	First National Bank, Sidney (18339)	19,760
	St. Paul National Bank, St. Paul (13463)	28,707
	Peoples State Bank, Wolbach	4,538
January 2	St. Paul National Bank, St. Paul (13463)	32,823
	Security National Bank, Sidney (12552)	48,077
	The Security State Bank, Holbrook	9,326
April 1	Security National Bank, Sidney (12552)	57,403
	The First National Bank of Omaha, Omaha (209)	992,916
	First Security Bank and Trust Co., Beatrice	27,141
May 31	First National Bank of Omaha, Omaha (209)	1,016,224
	NEW JERSEY	
	United Jersey Bank, National Association, Princeton (4872)	689,906
	United Jersey Bank/Hillsborough, National Association, Hillsborough Township (16011)	59,869
January 15	United Jersey Bank, National Association, Princeton (4872)	749,775
	Midlantic National Bank/South, Mount Laurel (1209)	2,050,217
	Midlantic National Bank/Union Trust, Wildwood (18224)	134,699
April 1	Midlantic National Bank/South, Mount Laurel (1209)	2,184,916
	Midlantic National Bank, Newark (1316)	4,753,135
	Midlantic National Bank/Sussex & Merchants, Newton (925)	221,168
April 1	Midlantic National Bank, Newark (1316)	4,974,303
	The First Jersey National Bank, Jersey City (374)	2,503,488
	Thr First Jersey National Bank/West, Denville (15646)	311,397
May 7	The First Jersey National Bank, Jersey City (374)	2,814,985
	First Jersey National Bank, Jersey City (374)	2,356,434
	The First Jersey National Bank/Fort Lee, Fort Lee (14287)	147,054
June 4	The First Jersey National Bank, Jersey City (374)	2,503,488
	NEW MEXICO	
	First National Bank of Farmington Bloomfield (6183)	222,411
	San Juan National Bank Farmington (16566)	13,981
June 30	The First National Bank of Farmington Farmington (6183)	236,692
	NEW YORK	
	Key Bank of Northern New York National Association Watertown (2657)	685,646
	Key Bank of Central New York Syracuse	1,380,031
January 1	Key Bank of Central New York National Association Syracuse (18756)	2,065,677

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued

(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	Community National Bank and Trust Company of New York, Staten Island (15558)	171,955
	First Inter-County Bank of New York, New York	34,800
March 11	Community National Bank and Trust Company of New York, Staten Island (15558)	206,755
	NORTH DAKOTA	
	Norwest Bank Fargo, National Association, Fargo (2377)	186,933
	Norwest Bank Bismarck, National Association, Bismarck (13398)	163,467
	Norwest Bank Grafton, National Association, Grafton (3096)	67,311
	Norwest Bank Hillsboro, National Association, Hillsboro (21124)	43,150
	Norwest Bank Jamestown, National Association, Jamestown (2580)	75,459
	Norwest Bank Mandan, National Association, Mandan (2585)	103,341
	Norwest Bank Minot, National Association, Minot (6429)	165,097
	Norwest Bank Valley City, National Association, Valley City (13385)	54,055
	Norwest Bank Wahpeton, National Association, Wahpeton (4552)	62,341
	Norwest Capital Management & Trust Co., Fargo	1,827
January 1	Norwest Bank North Dakota, National Association, Fargo (2377)	916,750
	First National Bank & Trust Co. of Williston, Williston (14275)	115,330
	Williston Basin State Bank, Williston	14,004
January 21	First National Bank & Trust Co. of Williston, Williston (14275)	NA
	First Bank of North Dakota (N.A.) - Fargo, Fargo (13323)	260,366
	The First National Bank and Trust Company of Bismarck, Bismarck (2434)	218,727
	First Bank of North Dakota (N.A.) - Grand Forks, Grand Forks (13357)	104,453
	First Bank of North Dakota (N.A.) - Jamestown, Jamestown (13344)	100,635
	First Bank of North Dakota (N.A.) - Minot, Minot (13455)	105,106
April 1	First Bank of North Dakota, National Association, Fargo (13323)	786,505
	OHIO	
	Bank One, Akron, National Association, Akron (17008)	1,098,526
	Bank One, Alliance, National Association, Alliance (3721)	176,240
March 1	Bank One, Akron, National Association, Akron (17008)	1,274,766
	The First National Bank, Dayton (1788)	879,644
	Unity Bank, Dayton	7,066
April 22	The First National Bank, Dayton (1788)	NA
	OKLAHOMA	
	The American National Bank of Bristow, Bristow (10849)	73,572
	First State Bank, Oilton	13,161
February 11	The American National Bank of Bristow, Bristow (10849)	NA
	The First National Bank of Moore, Moore (12035)	44,078
	Mustang Community Bank, Mustang	9,407
February 18	The First National Bank of Moore, Moore (12035)	NA
	The American National Bank of Bristow, Bristow (10849)	73,572
	The First National Bank and Trust Company of Cushing, Cushing (6893)	13,161
March 10	The American National Bank of Bristow, Bristow (10849)	NA
	The Fourth National Bank of Tulsa, Tulsa (13480)	419,846
	Century Bank, Tulsa	70,834
March 24	The Fourth National Bank of Tulsa, Tulsa (13480)	NA
	Lincoln National Bank, Oklahoma City (18596)	13,127
	First National Bank of Del City, Del City (18110)	30,860
March 25	Lincoln National Bank, Oklahoma City (18596)	NA
	PENNSYLVANIA	
	The Gettysburg National Bank, Gettysburg (611)	173,500
	Community National Bank of Littlestown (9207)	62,000
March 16	The Gettysburg National Bank, Gettysburg (611)	235,500
	Citizens National Bank and Trust Company of Waynesboro, Waynesboro (5832)	64,546
	The Citizens National Bank of Greencastle, Greencastle (5857)	96,943
June 2	Citizens National Bank of Southern Pennsylvania, Greencastle (5832)	161,489
	SOUTH DAKOTA	
	First Dakota National Bank, Yankton (2068)	65,316
	American State Bank, Yankton	64,069
May 18	First Dakota National Bank, Yankton (2068)	129,385
	TENNESSEE	
	First American National Bank of Nashville, Nashville (3032)	3,269,986
	First and Peoples National Bank of Gallatin, Gallatin (5545)	68,348
May 31	First American National Bank, Nashville (3032)	3,338,334

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks / Resulting bank	Total assets
	TEXAS	
	The First National Bank of Amarillo, Amarillo (4214)	739,761
	First Bank of Amarillo, Amarillo	29,644
January 1	The First National Bank of Amarillo, Amarillo (4214)	769,360
	Texas Commerce Bank - Hurst, N.A., Hurst (15072)	162,704
	Texas Commerce Bank of Fort Worth, Fort Worth	198,321
January 11	Texas Commerce Bank - Fort Worth, National Association, Fort Worth (15072)	361,025
	The Huntsville National Bank, Huntsville (14353)	136,262
	Sam Houston National Bank, Walker County, Huntsville (17363)	37,609
January 21	Huntsville National Bank, Huntsville (14353)	NA
	MBank Dallas, National Association, Dallas (13743)	8,198,111
	MBank Centerville, National Association, Garland (16297)	107,068
	MBank Garland, Garland	138,268
	MBank Grand Prairie, Grand Prairie	158,777
January 22	MBank Dallas, National Association, Dallas (13743)	8,425,870
	Allied Bank North Belt, National Association, Houston (17612)	139,077
	Allied Pasadena National Bank, Pasadena (14944)	102,923
January 28	Allied Bank North Belt, National Association, Houston (17612)	242,005
	Allied Bank North Belt, National Association, Houston (17612)	57,002
	Allied Deer Park Bank, Deer Park	105,514
	Allied Champions Bank, Harris County	292,239
	Allied Cypress Bank, Harris County	120,062
	Allied Fairbanks Bank, Houston	151,559
	Allied Bank - Gulf Freeway, Houston	31,234
	Allied Jetero Bank, Westfield	108,913
	Allied Bank Memorial, Houston	524,136
	Allied Mercantile Bank, Houston	326,691
	Allied Mission Bend Bank, Harris County	50,548
	Allied Bank Southwest Freeway, Houston	83,909
	Allied Bank West, Houston	410,412
	Allied Seabrook Bank, Seabrook	58,268
	Allied Spring Bank, Spring	109,995
	Allied Addicks Bank, Houston	84,362
	Allied Bank - Interstate 10, Houston	32,285
	Allied Bank of Texas, Houston	4,843,677
	Allied Beltway Bank, Houston	133,069
February 1	Allied Bank, National Association, Houston (17612)	6,373,686
	Texas Commerce Bank, National Association, Houston (10225)	11,164,652
	First Houston Bank, National Association, Houston (17992)	33,175
February 11	Texas Commerce Bank, National Association, Houston (10225)	NA
	MBank Austin National Association, Austin (4322)	680,825
	MBank Arboretum, Austin	8,082
	MBank Austin North, National Association, Austin (14928)	84,389
February 19	MBank Austin, National Association, Austin (4322)	755,400
	Park National Bank of Houston, Houston (18349)	30,594
	American National Bank, Stafford (17377)	31,314
February 25	Park National Bank of Houston, Houston (18349)	NA
	Willow Bend National Bank, Plano (17894)	63,134
	Collin County State Bank, Melissa	12,451
February 25	Willow Bend National Bank, Plano (17894)	NA
	Omnibanc South, National Association, Houston (14703)	55,387
	Harris County Bank Houston, National Association, Houston (15832)	80,724
February 25	Omnibanc South, National Association, Houston (14703)	NA
	MBank San Antonio North, National Association, San Antonio (17649)	37,619
	MBank San Antonio South, National Association, San Antonio (16740)	24,364
	MBank Alamo, National Association, San Antonio (4525)	1,014,308
March 4	MBank Alamo, National Association, San Antonio (4525)	1,076,291
	First National Bank of Alvin, Alvin (14905)	56,660
	First American Bank and Trust of Manvel, Manvel	12,268
March 10	First National Bank of Alvin, Alvin (14905)	NA
	The Moody National Bank of Galveston, Galveston (8899)	130,000
	South Shore National Bank, League City (20002)	8,500
March 11	Moody National Bank of Galveston, Galveston (8899)	135,840
	Texas American Bank/Austin, National Association, Austin (21582)	189,457
	Texas American Bank/Westlake, National Association, Austin (16943)	50,488
March 11	Texas American Bank/Austin, National Association, Austin (21582)	239,945
	MBank Port Arthur, National Association, Port Arthur (5485)	239,583
	MBank Beaumont, Beaumont	83,774
March 18	MBank Jefferson County, National Association, Port Arthur (5485)	323,357

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued

(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	The Frost National Bank of San Antonio, San Antonio (5179)	2,007,902
	Citizens Frost Bank, National Association, San Antonio (14938)	119,390
	Colonial Frost Bank, National Association, San Antonio (16336)	94,547
	Liberty Frost Bank, National Association, San Antonio (16314)	72,771
	North Frost Bank, National Association, San Antonio (17145)	117,667
March 18	The Frost National Bank of San Antonio, San Antonio (5179)	2,379,260
	The Hamilton National Bank, Hamilton (4451)	46,972
	First Bank & Trust, Tomball	68,665
March 31	The Hamilton National Bank, Hamilton (4451)	NA
	Independent Bank - Coppell, National Association, Coppell (20064)	15,898
	Independent Bank, National Association, Dallas (20511)	10,160
	Independent Bank - Balch Springs, National Association, Balch Springs (18345)	11,413
April 1	Independent Bank - Coppell, National Association, Coppell (20064)	36,471
	The Farmers and Merchants National Bank of Merkel, Merkel (7481)	30,408
	Home State Bank, Trent	5,401
April 7	The Farmers and Merchants National Bank of Merkel, Merkel (7481)	NA
	Charter National Bank - Willowbrook, Houston (16849)	47,261
	Cy-Fair Bank, National Association, Houston (17969)	13,897
April 14	Charter National Bank - Willowbrook, Houston (16849)	NA
	Overton Park National Bank, Fort Worth (16716)	110,338
	Ridglea National Bank, Fort Worth (18222)	35,630
April 15	Overton Park National Bank, Fort Worth (16716)	145,969
	First City National Bank of Houston, Houston (13943)	4,423,355
	McAllen State Bank, McAllen	580,047
April 19	First City National Bank of Houston, Houston (13943)	NA
	First RepublicBank Dallas, National Association, Dallas (12186)	19,447,787
	First RepublicBank Carrollton, Carrollton	291,569
	First RepublicBank Dallas East, National Association, Dallas (14563)	116,914
	First RepublicBank DFW Freeport, National Association, Irving (17743)	34,315
	First RepublicBank Garland, National Association, Garland (7989)	220,408
	First RepublicBank Grand Prairie, National Association, Grand Prairie (15120)	122,525
	First RepublicBank Greenville Avenue, Dallas	317,556
	First RepublicBank Hutchins, Hutchins	38,009
	First RepublicBank Irving, Irving	286,715
	First RepublicBank Las Colinas, Irving	200,739
	First RepublicBank North Dallas, National Association, Dallas (17160)	275,384
	First RepublicBank Oak Cliff, Dallas	521,799
	First RepublicBank Park Cities, Dallas	355,572
	First RepublicBank Pleasant Grove, Dallas	109,743
	First RepublicBank Richardson, Richardson	129,200
April 30	First RepublicBank Dallas, National Association, Dallas (12186)	20,811,945
	First RepublicBank San Antonio, National Association, San Antonio (14283)	786,487
	First RepublicBank Alamo Heights, National Association, San Antonio (15514)	150,866
	First RepublicBank Countryside, National Association, San Antonio (20651)	40,408
	First RepublicBank Northern Hills, San Antonio	62,154
	First RepublicBank NW San Antonio, National Association, San Antonio (17793)	132,746
April 30	First RepublicBank San Antonio, National Association, San Antonio (14283)	1,164,929
	First RepublicBank Austin, National Association, Austin (4308)	1,850,381
	First RepublicBank North Austin, National Association, Austin (18591)	26,360
	First RepublicBank NW Austin, National Association, Austin (16794)	87,437
	First RepublicBank Oak Hill, National Association, Austin (16282)	112,418
	First RepublicBank South Austin, Austin	136,072
	First RepublicBank Westlake, National Association, Austin (18481)	2,914
April 30	First RepublicBank Austin, National Association, Austin (4308)	2,108,125
	Cornerstone Bank, National Association, Dallas (20212)	102,566
	Union Bank & Trust of Dallas, Dallas	36,676
May 5	Cornerstone Bank, National Association, Dallas (20212)	NA
	First RepublicBank Plano, National Association, Plano (13511)	175,206
	First RepublicBank Preston North, National Association, Plano (20992)	48,321
May 12	First RepublicBank Plano, National Association, Plano (13511)	223 527
	Compass Bank Houston, National Association, Houston (17605)	48 479
	Westside National Bank, Houston (17075)	32 188
May 13	Compass Bank Houston, National Association, Houston (17605)	NA
	Old Braeswood National Bank, Houston (20005)	37 418
	National Bank of Texas, Houston (17824)	19 430
May 19	Old Braeswood National Bank, Houston (20005)	NA
	Independent Bank - Rockwall, National Association, Rockwall (16156)	27 607
	Independent Bank - Wylie, National Association, Wylie (18365)	11 345
May 31	Independent Bank - Rockwall, National Association, Rockwall (16156)	38,952

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	First RepublicBank Fort Worth, National Association, Fort Worth (2349)	1,112,775
	First RepublicBank Arlington, National Association, Arlington (15744)	72,874
	First RepublicBank Fort Worth East, National Association, Fort Worth (12696)	167,134
	First RepublicBank Gateway, National Association, Fort Worth (14962)	118,899
	First RepublicBank Richland, National Association, Fort Worth (16878)	82,108
	First RepublicBank Ridglea, Fort Worth	327,437
	First RepublicBank River Oaks, Fort Worth	87,925
	First RepublicBank South Fort Worth, Fort Worth	93,321
	First RepublicBank SW Arlington, National Association, Arlington (16835)	52,247
	First RepublicBank University Drive, Fort Worth	190,250
May 31	First RepublicBank Fort Worth, National Association, Fort Worth (2349)	2,280,341
	City National Bank, Houston (20931)	36,847
	Williamstown Bank, National Association, Houston (17512)	23,038
June 2	City National Bank, Houston (20931)	NA
	MBank Houston, National Association, Houston (15528)	4,638,828
	MBank Pasadena, National Association, Pasadena (21500)	265,637
June 10	MBank Houston, National Association, Houston (15528)	4,998,880
	Community National Bank, Austin (15691)	105,935
	Century National Bank, Austin (17600)	54,001
June 16	Community National Bank, Austin (15691)	NA
	The Central National Bank of San Angelo, San Angelo (10664)	262,022
	Central National Bank - North, San Angelo (18476)	12,786
	Central National Bank - West, San Angelo (16965)	20,329
June 20	Central National Bank of San Angelo, San Angelo (10664)	295,137
	Abrams Centre National Bank, Dallas (18120)	32,111
	Tri-Cities Bank & Trust, Glenn Heights	9,247
June 23	Abrams Centre National Bank, Dallas (18120)	NA
	Texas National Bank of Victoria, Victoria (21837)	NA
	Texas National Bank, Victoria (18449)	14,402
June 23	Texas National Bank of Victoria, Victoria (21837)	NA
	The First National Bank of Van Alstyne, Van Alstyne (4289)	46,960
	First National Bank, Sherman (16830)	24,812
June 30	The First National Bank of Van Alstyne, Van Alstyne (4289)	NA
	Groos Bank, National Association, San Antonio (10148)	140,834
	Mercantile Bank & Trust, San Antonio	79,126
June 30	Groos Bank, National Association, San Antonio (10148)	NA
	UTAH	
	Basin State Bank, Vernal	11,982
	Zions First National Bank, Salt Lake City (4341)	2,564,248
February 12	Zions First National Bank, Salt Lake City (4341)	NA
	Zions First National Bank, Salt Lake City (4341)	2,293,857
	Sandy State Bank, Sandy	8,946
May 27	Zions First National Bank, Salt Lake City (4341)	NA
	WASHINGTON	
	Peoples National Bank of Washington, National Association, Seattle (14394)	2,260,593
	Old National Bank of Washington, Spokane (4668)	1,829,658
February 8	U.S. Bank of Washington, National Association, Seattle (14394)	4,117,012
	Bellingham National Bank, Bellingham (7474)	165,847
	Bank of Washington, National Association, Bellingham (21735)	26,114
May 2	Bellingham National Bank, Bellingham (21735)	192,009
	WEST VIRGINIA	
	One Valley Bank, National Association, Charleston (16433)	833,327
	Bank of Lubeck, Lubeck	15,329
January 2	One Valley Bank, National Association, Charleston (16433)	848,522
	One Valley Bank, National Association, Charleston (16433)	851,187
	Parkersburg Industrial Banking Corporation, Parkersburg	2,613
April 15	One Valley Bank, National Association, Charleston (16433)	850,576
	The Empire National Bank of Clarksburg, Clarksburg (7029)	100,211
	First National Bank at Salem, Salem (14136)	12,971
June 30	The Empire National Bank of Clarksburg, Clarksburg (7029)	111,771
	WISCONSIN	
	First Wisconsin National Bank of Madison, Madison (144)	512,068
	First Wisconsin Bank of Waunakee, Waunakee	25,679
January 25	First Wisconsin National Bank of Madison, Madison (144)	537,624

Mergers consummated involving two or more operating banks, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
	Valley Bank of Watertown, National Association, Watertown (14064)	37,742
	Valley Bank of Juneau, Juneau	20,872
February 22	Valley Bank of Watertown, National Association, Watertown (14064)	58,614
	First National Bank, Iola (21610)	23,587
	First National Bank of Waupaca, Waupaca (14063)	44,720
February 26	First National Bank, Waupaca (21610)	68,307
	First Bank, National Association, Milwaukee (7347)	1,181,250
	Brown Deer Bank, Brown Deer	83,210
June 6	First Bank, National Association, Milwaukee (7347)	1,264,460

Mergers consummated involving a single operating bank, January 1 to June 30, 1988
(Dollar amounts in thousands)

Date consummated	*Merging banks* *Resulting bank*	*Total assets*
	ALABAMA	
May 2	Citizens National Bank, Valley Citizens National Interim Bank, Valley Citizens National Bank, Valley (15090)	$ 31,370
	ARKANSAS	
January 31	The First National Bank of Izard County, Calico Rock Interim First National Bank of Izard County, Calico Rock The First National Bank of Izard County, Calico Rock (21165)	29,982
	CALIFORNIA	
February 1	New San Marcos National Bank, San Marcos San Marcos National Nank, San Marcos San Marcos National Bank, San Marcos (18079)	33,370
	DISTRICT OF COLUMBIA	
April 1	American Indian National Bank Association, Washington Metropolitan Bank, National Association, Washington Metropolitan Bank, National Association, Washington (16220)	19,236
	FLORIDA	
May 19	First National Bank of the Florida Keys, Marathon The First Interim National Bank, Marathon The First National Bank of the Florida Keys, Marathon (16641)	43,410
	ILLINOIS	
January 14	The First National Bank of Wood River, Wood River Wood River National Bank, Wood River The First National Bank of Wood River, Wood River (11876)	101,318
January 28	The First National Bank in Paxton, Paxton PNB National Bank, Paxton First National Bank in Paxton, Paxton (13809)	43,316
January 29	The Citizens Bank of Decatur, National Association, Decatur The Pershing National Bank of Decatur, Decatur South Shores National Bank of Decatur, Decatur The Citizens Bank of Decatur, National Association, Decatur (21642)	47,118
March 31	First National Bank of Nokomis, Nokomis Second National Bank of Nokomis, Nokomis First National Bank of Nokomis (14436)	37,202
March 31	The First National Bank of Mt. Pulaski, Mt. Pulaski The Second National Bank of Mt. Pulaski, Mt. Pulaski The First National Bank of Mt. Pulaski, Mt. Pulaski (3839)	26,419
April 15	American National Bank and Trust Company of Waukegan, Illinois, Waukegan ANB-W National Bank, Waukegan American National Bank and Trust Company of Waukegan, Illinois, Waukegan (15610)	129,797
April 15	Wauconda National Bank and Trust Company, Wauconda WNBT National Bank, Wauconda Wauconda National Bank and Trust Company, Wauconda (14605)	60,338
April 15	Gurnee National Bank, Gurnee GNB National Bank, Gurnee Gurnee National Bank, Gurnee (15978)	34,550
April 15	First National Bank of Niles, Niles FNBN National Bank, Niles First National Bank of Niles, Niles (16072)	153,530
April 15	American National Bank, South Chicago Heights ANB-SCH National Bank, South Chicago Heights American National Bank, South Chicago Heights (16249)	69,621
April 15	First National Bank of Crystal Lake, Crystal Lake FNBCL National Bank, Crystal Lake First National Bank of Crystal Lake, Crystal Lake (14935)	71,633
April 25	The First National Bank of Triumph, Triumph FUB National Bank of Triumph, Triumph The First National Bank of Triumph, Triumph (7660)	16,758
May 16	The Peoples National Bank of Grayville, Grayville Grayville Interim National Association, Grayville The Peoples National Bank of Grayville, Grayville (14385)	47,562
May 31	The Peoples National Bank in Lawrenceville, Lawrenceville Lawrenceville Merger Bank, National Association, Lawrenceville The Peoples National Bank in Lawrenceville, Lawrenceville (8846)	61,702

Mergers consummated involving a single operating bank, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	Merging Banks / Resulting Bank	Total assets
	MASSACHUSSETS	
	Litchfield National Bank, Litchfield	
	LNB National Bank, Litchfield	
June 1	The Litchfield National Bank, Litchfield (10079)	49,362
	First National Bank and Trust Company, Carbondale, Illinois, Carbondale	
	Jackson County Bank, National Association, Carbondale	
June 7	First National Bank and Trust Company, Carbondale, Illinois, Carbondale (12596)	118,136
	KANSAS	
	The Peoples Interim National Bank of Clay Center, Clay Center	
	The Peoples National Bank of Clay Center, Clay Center	
April 1	The Peoples National Bank of Clay Center, Clay Center (3345)	58,252
	KENTUCKY	
	Liberty National Bank and Trust Company of Hardin County, Elizabethtown	
	The Bank of Elizabethtown, Inc., Elizabethtown	
May 31	Liberty National Bank and Trust Company of Hardin County, Elizabethtown (21712)	30,780
	LOUISIANA	
	The First National Bank in St. Mary Parish, Morgan City	
	New National Bank in St. Mary Parish, Morgan City	
March 1	The First National Bank in St. Mary Parish, Morgan City (13851)	127,915
	National Bank of Commerce, Baton Rouge	
	New National Bank of Commerce, Baton Rouge	
March 10	National Bank of Commerce, Baton Rouge (18330)	47,539
	MARYLAND	
	Sandy Spring National Bank, Sandy Spring	
	Sandy Spring Interim National Bank, Olney	
January 29	Sandy Spring National Bank of Maryland, Olney (5561)	287,833
	MICHIGAN	
	Capitol National Bank, Lansing	
	Capitol National Interim Bank, Lansing	
March 1	Capitol National Bank, Lansing (17525)	42,789
	First National Bank and Trust, Big Rapids	
	FNB National Bank, Big Rapids	
April 30	First National Bank and Trust, Big Rapids (14881)	68,044
	Commercial National Bank, Alma	
	Commercial National Interim Bank, Alma	
May 31	Commercial National Bank, Alma (15001)	115,240
	MISSOURI	
	Main Street National Bank, Perryville	
	The First National Bank of Perryville, Perryville	
January 4	The First National Bank of Perryville, Perryville (11402)	29,634
	NEW MEXICO	
	The First National Bank of Santa Rosa, Santa Rosa	
	The First National Interim Bank of Santa Rosa, Santa Rosa	
May 15	The First National Bank of Santa Rosa, Santa Rosa (6081)	14,310
	The First National Bank in Tucumcari, Tucumcari	
	The First National Interim Bank of Tucumcari, Tucumcari	
May 18	The First National Bank in Tucumcari, Tucumcari (14081)	53,478
	NEW YORK	
	Cayuga Lake National Bank, Union Springs	
	CLNB National Bank, Union Springs	
March 31	Cayuga Lake National Bank, Union Springs (412)	27,990
	Community National Bank and Trust Company of New York, Staten Island	
	Community National Interim Bank and Trust Company of New York, New York	
May 27	Community National Bank and Trust Company of New York, New York (15558)	169,600
	United National Bank, Callicoon	
	Norstar Bank of Callicoon, National Association, Callicoon	
June 24	Norstar Bank of Callicoon, National Association, Callicoon (13590)	94 715

Mergers consummated involving a single operating bank, January 1 to June 30, 1988 — continued
(Dollar amounts in thousands)

Date consummated	*Merging Banks* *Resulting Bank*	*Total assets*
	NORTH CAROLINA	
	Citizens National Bank, Winston-Salem	
	Peoples Interim National Bank, Rocky Mount	
January 22	Citizens National Bank, Winston-Salem (17560)	35,976
	OHIO	
	United Bank, National Association, Bucyrus	
	U B Bank, National Association, Bucyrus	
February 2	United Bank, National Association, Bucyrus (443)	77,789
	Mid-American National Bank and Trust Company, Northwood	
	Mid Am Interim, National Association, Bowling Green	
March 5	Mid-American National Bank and Trust Company, Bowling Green (15416)	413,692
	National Bank of Montpelier, Montpelier	
	Montpelier Interim, National Association, Montpelier	
May 19	National Bank of Montpelier, Montpelier (13912)	51,452
	PENNSYLVANIA	
	The First National Bank of McConnellsburg, McConnellsburg	
	FNB National Bank, McConnellsburg	
January 1	The First National Bank of McConnellsburg, McConnellsburg (8083)	43,785
	The Century National Bank and Trust Company, Rochester	
	CBTC National Bank, Rochester	
June 1	The Century National Bank and Trust Company, Rochester (4549)	199,074
	TEXAS	
	New Centre National Bank - Farmers Branch, Farmers Branch	
	Centre National Bank - Farmers Branch, Farmers Branch	
April 15	Centre National Bank - Farmers Branch, Farmers Branch (18170)	63,255
	WEST VIRGINIA	
	The First National Bank of Piedmont, Piedmont	
	Piedmont Interim National Bank, Piedmont	
May 2	The First National Bank of Piedmont, Piedmont (3629)	22,277
	The Lincoln National Bank of Hamlin, Hamlin	
	Lincoln Interim National Bank, Hamlin	
May 31	The Lincoln National Bank of Hamlin, Hamlin (8171)	60,716
	The Home National Bank of Sutton	
	Sutton National Bank, Sutton	
June 30	The Home National Bank of Sutton, Sutton (9604)	54,306
	Ohio Valley National Bank of Vienna, Vienna	
	UNB National Bank, Vienna	
June 30	Ohio Valley National Bank of Vienna, Vienna (14772)	57,003
	Webster County National Bank, Webster Springs	
	UBS National Bank, Webster Springs	
June 30	Webster County National Bank, Webster Springs (14013)	33,268
	The National Bank of Commerce of Williamson, Williamson	
	Commerce Interim National Bank, Williamson	
June 30	The National Bank of Commerce of Williamson, Williamson (10067)	82,084
	WISCONSIN	
	The National Bank of Waupun, Waupun	
	NBW National Bank, Waupun	
May 15	The National Bank of Waupun Waupun (7898)	46,330

National banks merged into state banks, January 1 to June 30, 1988

Title and location of bank	Effective date		Total assets of national banks
CALIFORNIA			
Charter National Bank, Encino (17294), merged into Bank of Industry, City of Industry	April	1	$ 48,026,000
COLORADO			
Citizens National Bank, Colorado Springs (16701), merged into State Bank and Trust of Colorado Springs, Colorado Springs	April	21	18,272,000
FLORIDA			
First National Bank of Destin, Destin (16532), merged into AmSouth Bank of Florida, Pensacola	June	10	81,757,000
The First National Bank, Panama City (15095), merged into AmSouth Bank, Pensacola	June	24	73,075,000
ILLINOIS			
First National Bank of Thomasboro, Thomasboro (8155), merged into Busey Bank, Urbana	January	1	14,752,000
LOUISIANA			
First National Bank of Port Allen, Port Allen (15692), merged into Iberville Trust and Savings Bank, Plaquemine	March	17	19,553,000
Capital Bank & Trust Co., Baton Rouge (21662), merged into Sunburst Bank, Baton Rouge	April	6	329,481,000
MICHIGAN			
First of America Bank — Saulte Ste. Marie, N.A., Saulte Ste. Marie (3547), merged into First of America Bank — Northern Michigan, Cheboygan	March	1	51,631,000
NEBRASKA			
First Nebraska Bank, N.A., Stanton (3364), merged into First Nebraska Bank, Valley	January	29	15,961,000
First Nebraska Bank, N.A., Columbus (17310), merged into First Nebraska Bank, Valley	January	29	10,815,000
First Nebraska Bank, N.A., Emerson (7425), merged into First Nebraska Bank, Valley	January	29	15,718,000
OHIO			
Trustcorp Company, N.A., Columbus (2577), merged into Trustcorp Bank Ohio, Toledo	March	11	472,833,000
OKLAHOMA			
Citizens National Bank, Clinton (17650), merged into The Bank of the West of Thomas, Oklahoma, Thomas	February	12	10,653,000
Republic National Bank, Norman (18441), merged into Republic Bank of Norman, Norman	June	30	24,337,000
PENNSYLVANIA			
McKeesport National Bank, McKeesport (4625), merged into Three Rivers Bank and Trust Company, Jefferson Borough	February	26	103,953,000
TENNESSEE			
First National Bank of Sparta, Sparta (3614), merged into Dominion Bank of Middle Tennessee, Nashville	February	12	116,911,000
First National Bank of Springfield, Springfield (12639), merged into Dominion Bank of Middle Tennessee, Nashville	April	16	76,728,000
First National Bank of Clarksville, Clarksville (1603), merged into Dominion Bank of Middle Tennessee, Nashville	June	10	230,620,000
TEXAS			
Moran National Bank, Moran (12727), merged into The Peoples State Bank, Clyde	January	14	17,204,000
Enterprise Bank — West, N.A., Houston (17116), merged into Enterprise Bank — Houston, Houston	February	1	9,213,000
Security Bank, N.A., Bay Area, Webster (18374), merged into Security Bank, Houston	February	4	12,072,000
Central National Bank, Dallas (17679), merged into Deposit Guaranty Bank, Dallas	April	7	15,915,000
First National Bank of Dumas, Dumas (14765), merged into Sunray State Bank, Sunray	April	14	21,423,000
Lincoln National Bank, Arlington (18118), merged into Tarrant Bank, Fort Worth	May	5	12,959,000
Commonwealth Bank-Lamar, N.A., Arlington (16827), merged into Commonwealth Bank	May	20	42,246,000
First National Bank of Kingwood, Kingwood (18279), merged into Interstate Bank North, Houston	May	26	16,080,000
River Plaza National Bank, Fort Worth (17439), merged into Tarrant Bank, Fort Worth	June	2	41,811,000
Kingsland National Bank, Kingsland (17613), merged into Security State Bank and Trust, Fredericksburg	June	16	14,066,000

National banks converted to state banks, January 1 to June 30, 1988

Title and location of bank	Effective date	Total assets
ALABAMA		
First National Bank of Rainsville, Rainsville (17630), converted to First Rainsville Bank	June 1	$ 23,528,000
CALIFORNIA		
Corporate National Bank, Santa Ana (17523), converted to Corporate Bank	January 8	51,208,000
Southland Bank, N.A., Arcadia (17321), converted to SB State Bank	April 1	41,255,000
ILLINOIS		
Peoples National Bank of Springfield, Springfield (15824), converted to Peoples Bank of Springfield	March 1	9,066,000
Magna Bank of Granite City, N.A., Granite City (6564), converted to Magna Bank of Granite City	April 1	157,249,000
MICHIGAN		
First National Bank & Trust, Big Rapids (14881), converted to Chemical Bank Central	April 30	68,044,000
Bank of West Branch, N.A., West Branch (16932), converted to Bank of West Branch	April 30	12,859,000
MISSOURI		
First National Bank of Poplar Bluff, Poplar Bluff (15377), converted to First Midwest Bank of Poplar Bluff	April 1	54,644,000
MONTANA		
Miners Bank of Montana, N.A., Butte (14334), converted to Miners Bank of Montana	January 15	28,000,000
First Security Bank of Montana, N.A., Glasgow (14910), converted to First Security Bank of Montana	June 13	32,075,000
OKLAHOMA		
First National Bank in Fort Gibson, Fort Gibson (8079), converted to First Bank & Trust Company of Fort Gibson	January 27	14,423,000
First National Bank of Tahlequah, Tahlequah (5478), converted to First Bank and Trust Company of Tahlaquah	March 31	117,831,000
TEXAS		
Bank of Longview, N.A., Longview (17317), converted to Bank of Longview	June 26	69,636,000
WISCONSIN		
New London National Bank, New London (15335), converted to F & M Bank of New London	April 29	14,346,000

National banks liquidated under emergency procedures, January 1 to June 30, 1988

Title and location of bank	Effective date	Total assets
CALIFORNIA		
Balboa National Bank, National City (17660)	January 14	$ 29,316,000
TEXAS		
Texas National Bank, Austin (18317)	April 21	18,482,000

Assets, liabilities and capital accounts of national banks, March 31, 1987, and March 31, 1988

(Dollar amounts in millions)

	March 31, 1987 4,781 banks	March 31, 1988 4,547 banks*	Change March 31, 1987—March 31, 1988 Fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Assets				
Cash and balances due from depository institutions:				
Noninterest-bearing balances and currency and coin	$ 123,382	$ 109,835	$ −13,547	−11.0
Interest-bearing balances	88,717	86,420	−2,297	−2.6
Securities	277,696	291,870	14,174	5.1
Federal funds sold and securities purchased under agreements to resell	71,151	82,238	11,087	15.6
Loans and leases, net of unearned income	1,055,072	1,131,912	76,840	7.3
Less allowance for loan and lease losses	18,665	33,040	14,375	77.0
Less allocated transfer risk reserve	92	132	40	43.5
Net loans and leases	1,036,314	1,098,741	62,427	6.0
Premises and fixed assets	25,704	26,862	1,158	4.5
Other real estate owned	5,293	6,834	1,541	29.1
Other assets	75,914	74,578	−1,336	−1.8
Total assets	1,704,172	1,777,377	73,205	4.3
Liabilities				
Demand deposits in domestic offices	261,465	250,062	−11,403	−4.4
Interest-bearing deposits in domestic offices	818,942	880,495	61,553	7.5
Total domestic deposits	1,080,407	1,130,557	50,150	4.6
Total foreign deposits	208,969	204,120	−4,849	−2.3
Total deposits	1,289,376	1,334,677	45,301	3.5
Federal funds purchased and securities sold under agreements to repurchase	167,808	176,080	8,272	4.9
Interest-bearing demand notes issued to the U.S. Treasury	3,674	13,709	10,035	273.1
Other liabilities for borrowed money	54,887	71,262	16,375	29.8
Subordinated notes and debentures	9,741	9,617	−124	−1.3
All other liabilities	68,548	66,656	−1,892	−2.8
Total liabilities	1,589,383	1,666,954	77,571	4.9
Limited-life preferred stock	73	68	−5	−6.8
Equity capital				
Perpetual preferred stock	807	863	56	6.9
Common stock	16,364	16,792	428	2.6
Surplus	34,092	37,586	3,494	10.2
Undivided profits and capital reserves	53,997	45,805	−8,192	−15.2
Cumulative foreign currency translation adjustments	−287	−307	−20	7.0
Total equity capital	104,974	100,738	−4,236	−4.0
Total liabilities, limited-life preferred stock, and equity capital	1,704,171	1,777,377	73,206	4.3

*Reporting national banks. Does not include the nonnational bank in the District of Columbia.

Year-to-date income and expenses of foreign and domestic offices and subsidiaries of national banks, March 31, 1988
(Dollar amounts in millions)

	4,547 banks*	
	Consolidated foreign and domestic	*Percent distribution*
Interest income:		
Interest and fee income on loans	$ 28,651	74.0
Income from lease financing receivables	602	1.6
Interest income on balances due from depository institutions	1,848	4.8
Interest and dividend income on securities	5,485	14.2
Interest income from assets held in trading accounts	727	1.9
Interest income from federal funds sold and securities purchased under agreements to resell	1,422	3.7
Total interest income	38,736	100.2
Interest expense:		
Interest on deposits	17,980	76.2
Expense of federal funds purchased and securities sold under agreements to repurchase	2,992	12.7
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	2,375	10.1
Interest on mortgage indebtedness and obligations under capitalized leases	40	0.2
Interest on notes and debentures subordinated to deposits	213	0.9
Total interest expense	23,601	100.1
Net interest income	15,135	
Provision for loan and lease losses	3,401	
Provision for allocated transfer risk	−2	
Noninterest income:		
Service charges on deposit accounts	1,413	20.5
Other noninterest income	5,475	79.5
Total noninterest income	6,888	100.0
Gains and losses on securities not held in trading accounts	213	
Noninterest expense:		
Salaries and employee benefits	6,860	44.9
Expenses of premises and fixed assets (net of rental income)	2,381	15.6
Other noninterest expense	6,043	39.5
Total noninterest expense	15,284	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	3,552	
Applicable income taxes	1,401	
Income before extraordinary items and other adjustments	2,151	
Extraordinary items and adjustments, net of taxes	67	
Net income	2,218	
Total cash dividends declared	2,162	
Recoveries credited to allowance for possible loan losses	642	
Losses charged to allowance for possible loan losses	3,404	
Net loan losses	2,762	
Ratio to total operating income:		
Interest on deposits	39.4	
Other interest expense	12.3	
Salaries and employee benefits	15.0	
Other noninterest expense	18.5	
Total operating expenses	85.2	
Ratio of net income (annualized) to:		
Total assets (end of period)	0.50	
Total equity capital	8.81	

*Reporting national banks. Does not include the nonnational bank in the District of Columbia.

Deposits of national banks, March 31, 1988

(Dollar amounts in millions)

	Total demand deposits at domestic offices	*NOW and automatic transfer accounts*	*Money market deposit accounts*	*Other large time deposits*	*All other time deposits at domestic offices*	*Total deposits at foreign offices*	*Total consolidated deposits*
All national banks	$250,090	$107,783	$213,693	$202,869	$360,793	$204,120	$1,339,349
Alabama	2,116	1,290	1,780	1,909	4,068	306	11,469
Alaska	572	117	432	317	501	1	1,939
Arizona	3,006	1,237	3,519	1,886	5,305	0	14,953
Arkansas	1,525	1,164	1,331	1,068	3,174	0	8,263
California	30,877	12,767	26,920	17,381	35,151	29,611	152,708
Colorado	3,337	1,842	2,966	2,032	3,412	175	13,765
Connecticut	4,045	1,605	2,625	1,647	4,873	373	15,168
Delaware	301	67	1,901	3,735	1,208	97	7,309
District of Columbia*	2,714	1,235	3,507	2,352	2,059	2,540	14,408
Florida	14,000	8,184	15,255	8,847	18,785	836	65,908
Georgia	6,730	2,259	4,877	3,682	6,919	994	25,461
Hawaii	56	33	27	32	75	0	222
Idaho	667	559	999	320	1,766	0	4,311
Illinois	13,287	4,588	8,863	14,066	19,403	25,635	85,843
Indiana	3,952	2,386	3,204	2,548	9,433	293	21,817
Iowa	1,573	1,061	1,163	500	3,630	0	7,927
Kansas	1,613	1,167	1,672	1,246	3,413	0	9,111
Kentucky	2,078	1,365	1,285	1,438	4,336	190	10,692
Louisiana	3,451	1,245	4,027	3,824	4,406	229	17,183
Maine	471	283	578	226	1,141	0	2,699
Maryland	3,846	1,117	3,326	2,464	5,187	944	16,884
Massachusetts	6,918	2,245	8,113	5,860	5,925	7,940	37,003
Michigan	7,345	2,316	5,759	4,614	12,552	2,611	35,197
Minnesota	5,292	2,450	3,380	6,426	7,459	2,137	27,145
Mississippi	1,289	746	1,198	1,410	2,778	0	7,421
Missouri	5,215	2,372	3,140	3,433	6,273	325	20,758
Montana	699	471	601	214	1,360	0	3,345
Nebraska	1,504	1,198	1,181	543	3,670	0	8,096
Nevada	1,023	428	605	310	1,051	0	3,417
New Hampshire	560	444	743	802	1,454	0	4,003
New Jersey	11,319	3,845	8,719	5,527	16,189	426	46,025
New Mexico	809	723	956	902	1,546	0	4,937
New York	32,918	7,652	24,970	23,004	30,081	111,090	229,715
North Carolina	6,023	2,871	5,309	6,009	9,171	1,654	31,037
North Dakota	431	461	345	227	1,236	0	2,700
Ohio	9,705	5,224	9,338	7,229	22,675	1,584	55,756
Oklahoma	2,598	1,657	2,186	2,362	4,997	50	13,850
Oregon	2,136	1,512	2,429	1,010	3,739	0	10,826
Pennsylvania	13,492	5,102	14,165	11,735	21,984	8,330	74,807
Rhode Island	1,086	454	1,308	1,905	2,817	970	8,539
South Carolina	1,912	1,412	1,554	889	3,055	0	8,822
South Dakota	413	461	566	1,367	1,787	0	4,595
Tennessee	3,638	2,225	1,732	2,860	7,232	124	17,809
Texas	20,046	8,795	13,373	33,225	25,455	2,952	103,846
Utah	949	597	870	661	1,914	93	5,084
Vermont	251	161	298	174	794	0	1,677
Virginia	3,383	2,083	2,533	3,746	7,459	102	19,305
Washington	5,004	2,100	4,571	2,498	7,378	1,367	22,918
West Virginia	1,081	773	898	656	4,422	0	7,835
Wisconsin	2,557	1,144	2,252	1,386	5,424	141	12,903
Wyoming	270	280	340	325	644	0	1,859
Puerto Rico	8	5	0	39	24	0	77

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency

Note: Figures may not add to totals due to rounding.

Loans of national banks, March 31, 1988
(Dollar amounts in millions)

	Total loans, gross	*Loans secured by real estate*	*Loans to farmers*	*Commercial and industrial loans*	*Personal loans to individuals*	*Other loans*	*Total loans less unearned income*	*Total loans at foreign offices*
All national banks	$1,141,079	$351,417	$12,772	$359,642	$205,819	$62,450	$1,131,970	$148,979
Alabama	8,902	3,117	41	3,567	1,893	284	8,751	0
Alaska	1,160	421	1	610	109	18	1,159	1
Arizona	11,783	4,099	511	3,604	3,056	512	11,773	0
Arkansas	5,216	2,147	140	1,712	1,070	147	5,165	0
California	137,696	46,888	1,767	30,931	18,594	8,251	137,509	31,265
Colorado	9,529	3,709	436	2,972	1,890	513	9,519	9
Connecticut	14,470	6,899	22	4,755	2,519	215	14,324	60
Delaware	17,619	889	1	499	16,137	93	17,605	0
District of Columbia*	10,886	4,510	0	3,711	979	862	10,832	823
Florida	51,810	24,444	177	13,328	12,798	914	50,921	149
Georgia	22,338	7,497	69	8,060	5,581	974	22,249	157
Hawaii	135	76	0	44	13	2	135	0
Idaho	3,504	889	278	1,170	1,060	107	3,490	0
Illinois	68,647	14,049	700	28,463	6,821	6,132	68,262	12,482
Indiana	16,914	5,644	247	5,895	4,360	656	16,811	113
Iowa	4,899	1,565	436	1,350	1,382	166	4,878	0
Kansas	5,323	1,703	701	1,662	1,060	197	5,306	0
Kentucky	8,402	2,596	107	3,098	1,970	590	8,271	41
Louisiana	11,880	4,359	56	4,555	2,138	467	11,786	305
Maine	2,457	1,339	12	709	381	16	2,442	0
Maryland	14,993	5,359	35	4,684	3,567	860	14,941	488
Massachusetts	40,195	13,026	34	15,139	3,634	3,356	40,041	5,007
Michigan	26,302	8,421	104	10,135	4,522	1,673	26,256	1,447
Minnesota	21,708	4,973	389	10,541	3,244	1,856	21,597	706
Mississippi	4,928	1,879	52	1,521	1,337	138	4,778	0
Missouri	15,345	5,669	264	5,163	2,793	1,233	15,279	222
Montana	1,653	462	201	570	401	18	1,647	0
Nebraska	4,873	1,100	930	1,344	1,305	195	4,871	0
Nevada	5,857	887	16	820	4,078	56	5,848	0
New Hampshire	3,817	1,471	1	845	1,468	33	3,813	0
New Jersey	39,192	17,829	10	14,163	6,057	937	38,701	195
New Mexico	3,359	1,501	95	977	714	73	3,330	0
New York	202,861	39,654	292	47,326	17,117	11,246	199,294	87,226
North Carolina	29,059	10,723	213	11,093	4,912	1,595	29,041	523
North Dakota	1,444	448	200	446	317	32	1,443	0
Ohio	46,893	14,122	274	15,864	14,101	2,261	46,613	270
Oklahoma	7,644	3,080	556	2,574	1,009	425	7,608	0
Oregon	8,869	2,457	200	3,880	1,772	496	8,847	64
Pennsylvania	63,580	15,917	126	29,573	8,883	5,845	63,055	3,236
Rhode Island	8,315	3,320	2	2,948	940	991	8,307	114
South Carolina	7,748	2,765	41	2,823	1,884	235	7,634	0
South Dakota	14,055	468	262	617	12,601	108	14,033	0
Tennessee	14,251	5,091	75	5,378	3,129	576	14,081	1
Texas	82,216	31,991	1,517	32,542	8,859	4,481	81,594	2,826
Utah	4,217	1,498	70	1,450	1,019	180	4,210	0
Vermont	1,410	822	17	356	211	4	1,410	0
Virginia	16,314	6,258	114	4,851	4,449	626	16,218	16
Washington	20,666	7,114	667	6,195	4,429	1,112	20,640	1,148
West Virginia	4,861	2,221	11	1,101	1,456	71	4,794	0
Wisconsin	9,977	3,764	196	3,709	1,609	612	9,955	87
Wyoming	861	276	103	299	176	9	858	0
Puerto Rico	51	18	0	17	14	1	50	0

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
Note: Figures may not add to totals due to rounding.

Outstanding balances, credit cards and related plans of national banks, March 31, 1988
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	4,548	2,356	$61,580,636
Alabama	54	15	247,143
Alaska	3	2	51,515
Arizona	15	14	739,808
Arkansas	83	14	191,990
California	170	150	9,313,097
Colorado	229	203	679,565
Connecticut	17	10	490,824
Delaware	18	18	15,378,106
District of Columbia	21	17	141,427
Florida	157	73	2,172,152
Georgia	56	38	1,739,955
Hawaii	3	1	2,773
Idaho	6	6	168,511
Illinois	382	194	1,649,137
Indiana	101	80	854,203
Iowa	103	52	570,058
Kansas	167	39	217,532
Kentucky	79	34	162,015
Louisiana	64	26	411,311
Maine	7	7	58,426
Maryland	26	17	1,760,534
Massachusetts	40	31	932,121
Michigan	87	63	1,281,589
Minnesota	180	127	431,779
Mississippi	28	9	94,154
Missouri	96	51	532,484
Montana	58	33	19,654
Nebraska	112	41	618,434
Nevada	7	4	3,614,810
New Hampshire	20	15	988,247
New Jersey	67	50	715,002
New Mexico	42	13	185,921
New York	104	62	3,388,926
North Carolina	15	14	1,174,168
North Dakota	33	14	33,387
Ohio	137	103	3,350,740
Oklahoma	202	69	25,381
Oregon	7	6	583,313
Pennsylvania	167	74	729,177
Rhode Island	5	4	265,753
South Carolina	22	18	327,568
South Dakota	24	9	701,586
Tennessee	56	26	611,914
Texas	934	304	267,129
Utah	7	4	177,337
Vermont	12	5	36,634
Virginia	52	24	1,105,267
Washington	22	12	1,754,776
West Virginia	95	30	81,019
Wisconsin	117	102	538 683
Wyoming	37	27	8 537
Puerto Rico	1	1	4 666
District of Columbia—all*	22	18	141,825

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency

National banks engaged in lease financing, March 31, 1988
(Dollar amounts in thousands)

	Total number of national banks	*Number of banks engaged in lease financing*	*Amounts of lease financing at domestic offices*
All national banks	4,548	1,052	$21,477,981
Alabama	54	5	63,011
Alaska	3	1	4,487
Arizona	15	4	268,713
Arkansas	83	29	14,631
California	170	51	4,141,954
Colorado	229	81	103,004
Connecticut	17	2	680
Delaware	18	2	87,506
District of Columbia	21	7	62,577
Florida	157	25	262,356
Georgia	56	13	474,841
Hawaii	3	1	1,526
Idaho	6	3	51,309
Illinois	382	93	316,734
Indiana	101	47	329,254
Iowa	103	18	9,660
Kansas	167	39	33,424
Kentucky	79	23	155,221
Louisiana	64	13	46,877
Maine	7	2	7,624
Maryland	26	5	439,864
Massachusetts	40	16	2,309,720
Michigan	87	20	257,235
Minnesota	180	75	238,731
Mississippi	28	2	1,392
Missouri	96	24	198,792
Montana	58	7	749
Nebraska	112	27	68,360
Nevada	7	2	8,591
New Hampshire	20	5	9,728
New Jersey	67	15	287,237
New Mexico	42	15	15,429
New York	104	24	5,074,038
North Carolina	15	6	910,859
North Dakota	33	15	8,724
Ohio	137	64	1,216,517
Oklahoma	202	50	11,798
Oregon	7	3	230,447
Pennsylvania	167	32	1,617,453
Rhode Island	5	2	898,605
South Carolina	22	5	73,199
South Dakota	24	7	1,741
Tennessee	56	21	110,380
Texas	934	77	454,810
Utah	7	5	95,161
Vermont	12	1	1,847
Virginia	52	8	151,196
Washington	22	8	213,207
West Virginia	95	8	1,801
Wisconsin	117	37	134,267
Wyoming	37	7	714
Puerto Rico	1	0	0
District of Columbia—all*	22	7	62,577

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency.

Consolidated foreign and domestic loans and leases past due at national banks, March 31, 1988
(Dollar amounts in millions)

	Number of banks	Type of loans						
		Real estate	Commercial and industrial	Personal	Leases	Other loans	Total loans	To non-U.S. addresses*
Reporting national banks	4,548	$20,555.0	$20,079.5	$7,483.12	$400.762	$15,629.7	$64,148.1	$7,797.36
Alabama	54	84.9	79.7	65.55	0.064	19.3	249.5	0.00
Alaska	3	66.1	34.3	3.21	0.096	14.9	118.6	0.00
Arizona	15	541.0	176.2	53.74	1.453	98.0	870.4	10.64
Arkansas	83	141.1	37.6	32.75	0.011	99.9	311.3	0.00
California	170	2,280.8	3,114.3	552.46	80.432	3,272.0	9,300.0	1,192.36
Colorado	229	274.1	64.3	66.74	0.321	297.7	703.2	0.00
Connecticut	17	181.7	144.5	76.60	0.000	43.2	445.9	0.67
Delaware	18	48.2	11.5	676.18	1.285	4.0	741.1	0.00
District of Columbia	22	235.9	136.5	23.88	0.936	77.2	474.3	9.80
Florida	157	862.8	360.5	250.06	4.026	137.0	1,614.3	25.55
Georgia	56	263.0	203.3	130.02	14.078	86.2	696.6	4.53
Hawaii	3	1.2	0.0	0.22	0.046	1.3	2.8	0.00
Idaho	6	33.2	28.0	18.93	0.296	24.8	105.2	0.00
Illinois	382	461.0	925.5	193.29	2.532	1,002.2	2,584.6	489.08
Indiana	101	144.1	88.6	114.89	5.638	89.0	442.3	5.29
Iowa	103	41.1	13.6	41.43	0.487	74.6	171.2	1.50
Kansas	167	61.5	18.7	23.46	1.117	91.6	196.4	0.00
Kentucky	79	103.4	42.4	36.67	1.020	61.5	245.0	0.00
Louisiana	64	443.9	333.6	110.27	3.710	106.7	998.2	0.00
Maine	7	22.6	10.7	14.89	0.072	3.8	52.1	0.00
Maryland	26	83.5	83.7	129.46	4.338	79.7	380.7	7.57
Massachusetts	40	723.9	759.6	126.13	82.032	606.9	2,298.6	286.62
Michigan	87	220.6	200.6	119.53	2.040	93.3	636.1	28.75
Minnesota	180	286.2	555.4	87.85	0.833	482.9	1413.2	33.39
Mississippi	28	86.2	19.0	48.18	0.000	25.5	178.8	0.00
Missouri	96	198.6	259.4	78.71	1.114	227.2	765.0	40.53
Montana	58	36.2	2.7	10.00	0.544	58.9	108.3	0.00
Nebraska	112	47.2	19.2	33.37	1.535	82.2	183.5	0.00
Nevada	7	60.9	50.3	156.15	0.099	2.9	270.4	0.00
New Hampshire	20	32.0	11.5	24.29	0.000	10.9	78.6	0.00
New Jersey	67	521.4	428.5	163.86	12.985	111.5	1238.3	24.28
New Mexico	42	84.7	19.6	20.33	0.484	69.3	194.5	0.00
New York	104	2,271.7	6,340.6	1,349.83	56.653	4,500.6	14,519.4	4,926.88
North Carolina	15	213.0	156.7	94.72	6.369	46.7	517.5	6.76
North Dakota	33	17.2	16.6	7.68	0.191	50.7	92.4	0.00
Ohio	137	346.2	470.3	398.05	25.171	178.8	1,418.5	39.09
Oklahoma	202	378.0	68.4	33.37	0.037	235.1	714.9	0.00
Oregon	7	162.8	77.5	36.29	5.357	31.1	313.1	1.14
Pennsylvania	167	670.7	1,211.8	238.34	29.284	827.8	2,977.9	262.59
Rhode Island	5	120.2	95.0	21.95	22.283	4.4	263.9	12.59
South Carolina	22	112.9	29.6	34.42	0.820	21.4	199.2	0.00
South Dakota	24	16.0	8.2	1,072.23	2.553	28.0	1,127.0	0.00
Tennessee	56	187.7	167.3	88.97	6.155	59.7	509.7	1.47
Texas	934	6,448.9	2,680.2	320.02	5.762	1,611.9	11,066.8	322.29
Utah	7	108.4	49.4	31.24	3.044	5.4	197.5	0.00
Vermont	12	15.0	8.8	6.18	0.000	3.4	33.4	0.00
Virginia	52	205.6	82.4	77.26	1.703	52.5	419.6	0.00
Washington	22	364.6	315.1	99.96	1.932	294.7	1,076.4	50.78
West Virginia	95	88.4	10.1	51.51	0.125	47.5	197.6	0.00
Wisconsin	117	133.2	58.3	30.29	9.699	121.7	353.2	13.20
Wyoming	37	21.2	0.0	7.29	0.000	51.0	79.4	0.00
Puerto Rico	1	0.0	0.0	0.42	0.000	1.1	1.5	0.00

NOTE: These figures are fully consolidated foreign and domestic for all reporters.
*Includes past due real estate and commercial and industrial loans and lease financing receivables for banks with foreign offices and/or assets of $300 million or more.

Foreign branch assets and liabilities of national banks, December 31, 1987

(Dollar amounts in thousands)

Assets		Liabilities	
Cash and cash items in process of collection	$ 1,237,942	Deposits of U.S. banks (including IBFs and foreign branches of U.S. banks)	$ 12,527,707
Balances with U.S. banks (including IBFs and foreign branches of U.S. banks)	8,318,605	Deposits of foreign banks (including U.S branches of foreign banks and their IBFs)	36,270,095
Balances with foreign banks (including U.S. branches and agencies of foreign banks & their IBFs)	50,712,147	Other deposits	106,155,590
Securities	7,925,215	Liabilities for borrowed money	9,480,815
Loans, discounts, overdrafts, and leases		Liability on acceptances executed and outstanding	3,114,850
A Secured by real estate	6,900,006	Accrued taxes and other expenses	2,693,919
B To financial institutions	7,201,276	Net due to other foreign branches of this bank	20,942,378
C To commercial and industrial borrowers	45,685,223	Net due to head office and U.S. branches of this bank	16,442,737
D To non-U.S. govt. and official institutions	8,754,789	Net due to consolidated subsidiaries of this bank	6,721,223
E To all others	7,199,532	Other liabilities	4,016,617
Less unearned discount	268,833		
Total loans and leases, net	75,471,993	Total liabilities	218,365,931
Customers' liability on acceptances outstanding	3,751,406		
Premises, furniture and fixtures	1,458,962		
Accruals—interest earned, foreign exchange profits, etc.	2,425,263	Memoranda	
Net due from other foreign branches of this bank	28,192,982	Standby letters of credit	12,362,501
Net due from head office and U.S. branches of this bank	19,888,496	Commercial letters of credit issued and outstanding	4,449,745
Net due from consolidated subsidiaries of this bank	11,763,706	Guarantees and letters of indemnity	2,940,731
Other assets	7,219,214	Commitments to purchase foreign currency and U.S. dollar exchange	494,004,429
Total assets	218,365,931	Total interest bearing balances included in items 2 and 3	54,597,540
		Total interest bearing deposits included in items 14, 15 and 16	142,018,284

Total foreign branch assets of national banks, yearend 1953—1987*
(Dollar amounts in thousands)

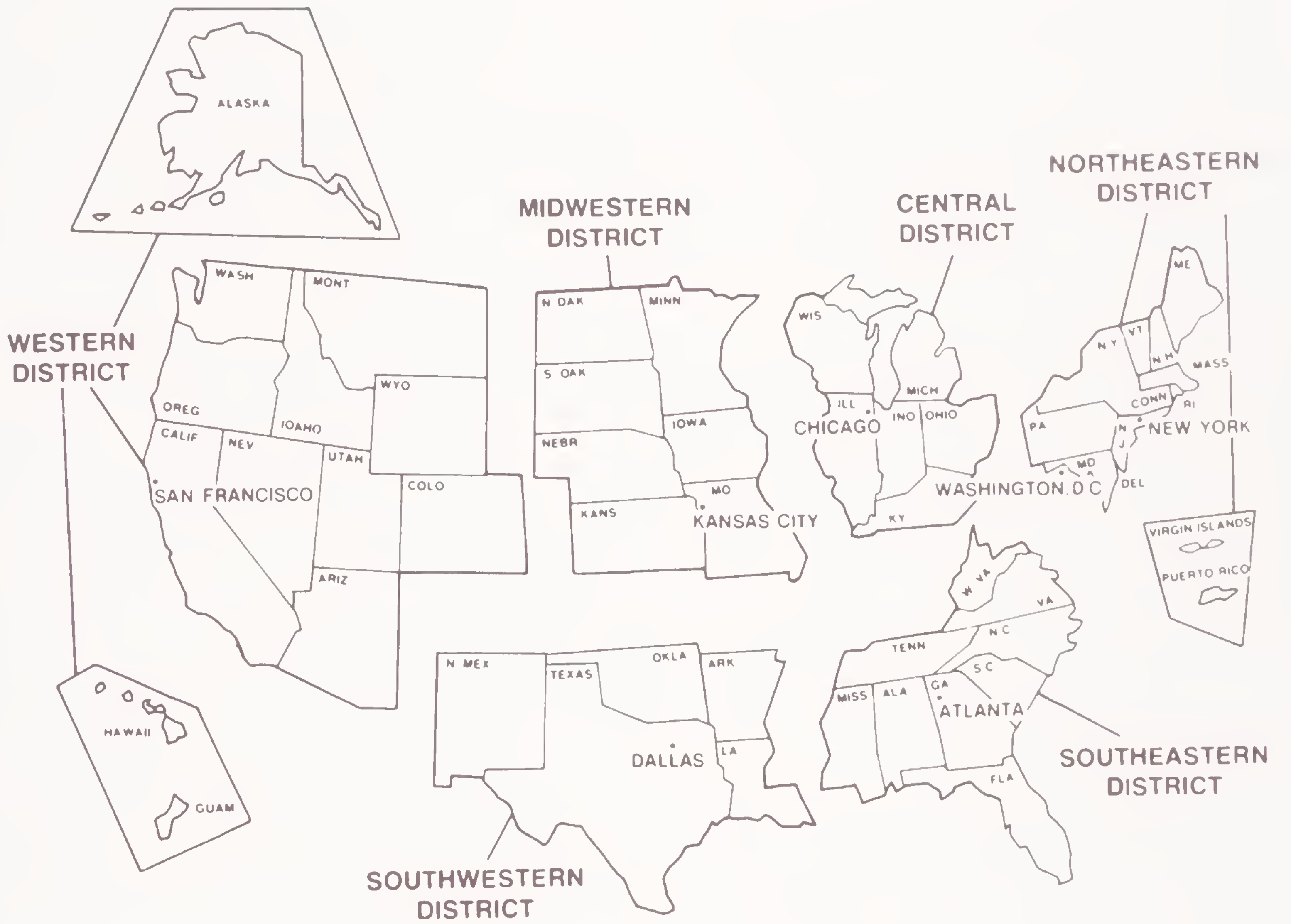
Year	Branches	Assets	Year	Branches	Assets
1953	NA	$ 1,682,919	1971	528	$ 50,550,727
1954	NA	1,556,326	1972	566	54,720,405
1955	85	1,116,003	1973	621	83,304,441
1956	NA	1,301,883	1974	649	99,810,999
1957	NA	1,342,616	1975	675	111,514,147
1958	NA	1,405,020	1976	635	134,790,497
1959	NA	1,543,985	1977	629	161,768,609
1960	93	1,628,510	1978	646	180,712,782
1961	102	1,780,926	1979	667	217,611,974
1962	111	2,008,478	1980	672	242,763,325
1963	124	2,678,717	1981	710	274,776,705
1964	138	3,319,879	1982	767	272,989,320
1965	196	7,241,068	1983	769	275,180,362
1966	230	9,364,278	1984	800	231,507,751
1967	278	11,856,316	1985	786	223,313,493
1968	355	16,021,617	1986	767	216,500,120
1969	428	28,217,139	1987	741	218,365,931
1970	497	38,877,627			

*Includes military facilities operated abroad by national banks from 1966 through 1971.

Foreign branches of national banks, by region and country, December 31, 1987

Region and country	Number	Region and country	Number
Central America	37	Middle East	14
El Salvador	1	Bahrain	3
Guatemala	2	Jordan	2
Mexico	5	Lebanon	2
Nicaragua	1	Oman	1
Panama	28	United Arab Emirates	6
South America	172	Europe	132
Argentina	63	Austria	1
Bolivia	1	Belgium	8
Brazil	26	Denmark	2
Chile	35	France	8
Ecuador	8	Germany	9
Paraguay	12	Greece	21
Peru	7	Ireland	4
Uruguay	16	Italy	11
Venezuela	4	Luxembourg	2
		Monaco	2
West Indies—Caribbean	146	Netherlands	2
Bahamas	57	Portugal	3
British Virgin Islands	2	Spain	8
Cayman Islands	64	Switzerland	9
Dominican Republic	13	United Kingdom	42
Haiti	5	Asia and Pacific	180
Jamaica	1		
Netherlands Antilles	4	Brunei	2
		Hong Kong	69
Africa	15	India	10
		Indonesia	5
Egypt	4	Japan	21
Gabon	2	Korea	13
Ivory Coast	3	Macau	1
Kenya	1	Malaysia	5
Liberia	2	New Zealand	1
Senegal	1	Pakistan	8
Sudan	1	Philippines	10
Tunisia	1	Singapore	17
		Sri Lanka	1
		Taiwan	8
		Thailand	3
		Turkey	6
		U.S. Overseas Areas and Trust Territories	45
		Guam	2
		Puerto Rico	32
		Virgin Islands	11
		Total	741

Index



Northeastern District

New York District Office
1114 Avenue of the Americas
Suite 3900
New York, NY 10036

FTS	8-265-3495
Commercial	212-819-9860

Central District

Chicago District Office
One Financial Plaza
Suite 2700
440 South LaSalle Street
Chicago, IL 60605

FTS	8-364-8000
Commercial	312-663-8000

Southwestern District

Dallas District Office
1600 Lincoln Plaza
500 North Akard
Dallas, TX 75201-3394

Commercial	214-720-0656

Southeastern District

Atlanta District Office
Marquis One Tower
Suite 600
245 Peachtree Center Ave., N.E.
Atlanta, GA 30303

Commercial	404-659-8855

Midwestern District

Kansas City District Office
2345 Grand Avenue
Suite 700
Kansas City, MO 64108

FTS	8-758-0800
Commercial	816-556 1800

Western District

San Francisco District Office
50 Fremont Street
Suite 3900
San Francisco CA 94105

FTS	8 449 9900
Commercial	415 545 5900

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219
OFFICIAL BUSINESS
Penalty for Private Use $300

SPECIAL FOURTH-CLASS RATE
POSTAGE & FEES PAID BY
Comptroller of the Currency
PERMIT NO. [illegible]

QJ01861175 SAMPLE CONVF801
RESEARCH LIBRARY
FEDL RESERVE BANK OF ST. LOUIS
P.O. BOX 442
ST. LOUIS MO 63166